S
353
G1gbL
1999
V. 1
Montana. Office of the Governor
Governor's budget and legislative budget analysis 1999 biennium

GOVERNOR'S BUDGET and LEGISLATIVE BUDGET ANALYSIS 1999 BIENNIUM

Agency Budgets — Volume 1

STATE DOCUMENTS COLLECTION
FEB 21 1997
MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620
PLEASE RETURN

January 1997

OFFICE OF THE GOVERNOR

LEGISLATIVE FISCAL DIVISION

MONTANA STATE LIBRARY
3 0864 0009 8069 1

GOVERNOR'S BUDGET and LEGISLATIVE BUDGET ANALYSIS

1999 Biennium

Agency Budgets — Volume 1

Presented to the Fifty-fifth Legislature

by

Office of the Governor	**and**	**Legislative Fiscal Division**

Helena, Montana

January 1997

Digitized by the Internet Archive
in 2010 with funding from
Montana State Library

http://www.archive.org/details/governorsbudgetl19991mont

INTRODUCTION

AGENCY BUDGET ANALYSIS

The following sub-sections provide a detailed explanation and analysis of the Executive Budget for each agency and agency program for which appropriations are made in HB 2. The agencies are grouped by functional categories that mirror agency groups by Appropriations Subcommittee. The groups are summarized below. Selected programs funded with proprietary funds, and the State Mutual Compensation Fund, are not funded in HB 2. Explanation and analysis of these programs is included in the "Proprietary Funds-Rate Setting and State Fund" section of Volume II.

Agency Subcommittee Groupings

GENERAL GOVERNMENT AND TRANSPORTATION (Section A)

- Legislative Branch
- Consumer Counsel
- Judiciary
- Montana Chiropractic Legal Panel
- Governor's Office
- Secretary of State
- Commissioner of Political Practices
- State Auditor
- Transportation
- Revenue
- Administration
- Appellate Defender
- Public Employees' Retirement Board
- Teachers' Retirement Board

HUMAN SERVICES (Section B)

- Public Health and Human Services

NATURAL RESOURCES and COMMERCE (Section C)

- Fish, Wildlife, and Parks
- State Lands
- Livestock
- Natural Resources and Conservation
- Agriculture
- Commerce

INSTITUTIONS AND PUBLIC SAFETY (Section D)

- Judiciary
- Chiropractic Legal Panel
- Board of Crime Control
- Justice

INSTITUTIONS AND PUBLIC SAFETY (continued)

- Public Service Regulation
- Corrections and Human Services
- Labor and Industry
- Military Affairs

EDUCATION (Section E)

- Office of Public Instruction
- Board of Public Education
- School for the Deaf and Blind
- Vocational Education Council
- Commissioner of Higher Education
- Community Colleges
- Colleges of Technology
- Montana University System (MUS)
- Agricultural Experiment Station
- Cooperative Extension Service
- Forestry and Conservation Experiment Station
- Bureau of Mines
- Montana Arts Council
- State Library Commission
- Fire Services Training School
- Montana Historical Society

LONG-RANGE PLANNING (Section F)

- Long-Range Building Program
- Treasure State Endowment Program
- Oil Overcharge Funds
- State Building Energy Conservation
- Resource Indemnity Trust Interest Account
- Cultural and Aesthetic Grant Program
- Information Technology Bond Proposal

AGENCY BUDGET ANALYSIS

The following summary of the layout and composition of the "Agency Budgets and Analysis" section is designed to provide the reader with a "road map" for reading and utilizing this section.

The agency budget and analysis is designed to provide a resource for legislators and members of the public to understand and allow for action on state agency budgets. It does this by detailing the components of the Executive Budget, and raising issues for legislative consideration with that budget, as well as other issues not specifically related to the Executive Budget.

In particular, the agency budget and analysis is designed to be a working document for the joint appropriations subcommittees while deliberating HB 2 and supplemental requests. It provides the subcommittees with an explanation of each component of the budget recommended by the executive for each program.

The section is constructed using the precepts of HB 7 (passed during the November 1993 Special Session), which required that the budget be presented in three tiers:

1) base budget,
2) present law budget, and
3) new proposals.

(For a further explanation of these tiers and how they are derived, see page 1 of the "Reference" section in the LFD Overview Volume.) The analysis is presented in such a way as to allow the legislature to see and act on each present law adjustment and new proposal made to the base budget to derive the Executive Budget, by summarizing and raising issues with those adjustments.

Joint Book

The 1997 legislature passed legislation requiring that the Legislative Fiscal Analyst, "...in a mutually prescribed format, publish the Governor's budget and incorporate the information required by 17-7-123 [the section prescribing the form of the Executive Budget] in a combined Governor's budget and Legislative Fiscal Analyst's budget analysis presentation." The joint Executive Budget/LFD Budget Analysis is the result of that directive, and the staff of OBPP and LFD have endeavored jointly to present the budget/analysis in a mannter that facilitates the budget process.

Because the Executive Budget is included with the LFD Budget Analysis, differentiation was made between those sections written directly by the agencies and the Office and Budget and Program Planning (OBPP) and those written by the LFD by the use of a different font. In some agency and program descriptions the LFD analyst provided input and editing to descriptions provided by the agencies and OBPP. However, these joint passages are not differentiated by font.

Certain sections were reserved for LFD issues, including those sections entitled "Agency Issues" and "Program Issues". Within other sections, the LFD analyst directly inputs comments and issue discussion immediately following the narrative provided by the agencies and OBPP.

The executive has an entirely different purpose in presenting its budget than does the LFD in presenting its analysis. Because this is a joint presentation of the budget, rather than a joint <u>development</u> of the budget book (which the divergent missions and purposes of the two offices do not allow), and in order to recognize the executive's obligation to present a budget and the LFD's to independently analyze that budget without contributing to its determination, the LFD analyst did not rewrite, edit, or assist in determining the content of any narrative explaining executive initiatives or proposed budgets. Neither did the analyst in any way suggest changes to the actual adjustments or policy initiatives included in the Executive Budget. However, the LFD has an obligation to ensure that the information presented to the legislature is conducive to informed decision making. Consequently, if the analyst determined that further clarification or a more descriptive explanation was warranted, it was inserted after the executive explanation, differentiated by font.

For all multiple program agencies, the narrative is divided into two parts: 1) the agency narrative; and

2) the program narrative.

Agency Narrative

The agency narrative provides an overview of the Executive Budget for that agency. Only issues raised in the analysis with an agency-wide or multiple-program impact are discussed at this level. Otherwise, all discussion occurs within the relevant program narratives, as the legislative appropriates at the program level.

Each agency narrative begins with a table showing the components of the Executive Budget, including present law adjustments and new proposals. The table is followed by the agency mission and a brief description. If the executive has recommended a supplemental appropriation for fiscal 1997, it is discussed next, along with LFD comments. If the executive has agency-wide policy issues, they are discussed next in the section entitled "Agency Narrative". Any LFD comments are inserted following the executive discussion. Any language proposed by the executive follows, with LFD comments as appropriate.

Following this discussion is a table comparing adjusted actual fiscal 1996 expenditures and appropriations for fiscal 1997 (the 1997 biennium base) to the 1999 biennium Executive Budget. The table is followed by a discussion by the LFD analyst of any agency-wide issues identified. Otherwise, all discussions of adjustments and attendant issues are included in the relevant program narratives. If the agency has reorganized, a discussion explaining that reorganization follows.

Program Narrative

The agency narrative is followed by narratives detailing each of the agency programs. The program narrative begins with a table showing the adjusted fiscal 1996 base used to derive the budget; and total present law adjustments, new proposals, and the total Executive Budget, by fiscal year. A short program description follows.

If the program or a portion therein is recommended for performance based budgeting, a table showing the executive recommendation follows the program description. Following this table is a discussion of the performance measures proposed as part of the performance based budget. LFD comments or issues are included as warranted.

A section detailing program funding follows. This section, and any issues raised with the funding methodology employed by the executive, is written by the LFD analyst. If the executive has major issues or policy discussions within the program, they are discussed next, followed by LFD issues or comments.

This section is followed by the "Executive Present Law" discussion. This narrative is designed to provide a discussion about present law adjustments proposed by the executive to the base budget. The writeup begins with a table delineating the major present law adjustments included by the executive, by fiscal year. The individual present law adjustments were created by the executive. The table is divided into two sections:

1) statewide present law adjustments, which include most personal services adjustments, and adjustments due to fixed costs and inflation; and

2) other present law adjustments made by the executive.

The table is followed by a narrative, in which each significant adjustment is discussed in more detail. If the LFD analyst has raised an issue with the adjustment, it is discussed when the adjustment is discussed. If the LFD analyst feels that a different explanation or comment is warranted, it is also made when the adjustment is discussed.

The present law narrative is followed by the "New Proposals" narrative, which begins with a table listing each of the new proposals included by the executive, by year and funding source (showing both general fund or total funds). This table is followed by narrative written by the executive discussing each new proposal in more detail. If the LFD analyst has raised an issue with the proposal, or feels a different explanation is warranted, it is

discussed with that new proposal.

For those agencies headed by either an elected official or the Board of Regents, each new proposal is discussed in more detail.

Statewide Present Law Adjustments

"Statewide present law adjustments" are those adjustments applied to each agency based upon either: 1) factors beyond the individual agency's control; or 2) other underlying factors. Because of the global application of these factors and the need for consistency among agencies, these adjustments are included in the "statewide" section of the present law table to alert subcommittees and other decision makers that, if adjustments are made to these costs, adjustments should be made to the underlying factors upon which the adjustments are based. The Legislative Finance Committee (LFC) will make a recommendation on these and other adjustments to the legislature.

Personal services costs are derived by taking a "snapshot" of state employee positions and the factors determining compensation rates at a particular point in time. A number of underlying factors will make 1999 biennium personal services costs different from actual fiscal 1996 costs. The most important are:

<u>1997 Biennium Pay Plan and Other Benefits</u>

The 1995 legislature adopted a pay plan which, among other features, provided for:

1) establishment of a target market ratio, and adjustment of employees' salaries that were below the market ratio determined to be appropriate for the employee's grade and experience; and

2) continuance of the target market ratio in fiscal 1997, along with an adjustment in the target market salary against which the ratio was compared.

Because the pay plan was increased in fiscal 1997 and not fully implemented in the base year, adjustments were made to each employee's compensation to reflect actual agency costs in the 1999 biennium. In addition, any changes made to benefits that an agency must pay directly to or in support of an employee, such as pension, or unemployment and workers' compensation insurance, are automatically reflected in the present law personal services.

<u>Vacancy Savings</u>

Vacancy savings is (generally) a reduction in personal services costs that results when positions are not filled for the entire year. Vacancy savings will fluctuate within agencies and programs from year to year. In order to provide the legislature with the opportunity to make all policy decisions regarding vacancy savings, each position is funded as if the position were filled for the entire year, regardless of any vacancy savings that may have occurred in fiscal 1996. The executive is proposing a 3 percent vacancy savings rate on most programs included in the personal services budget. (For a further discussion, see the "Overview" volume of the LFD analysis.)

<u>Termination Pay</u>

Costs incurred by agencies due to termination of employment, such as accrued sick or annual leave, are not included in present law.

<u>Upgrades/Downgrades</u>

All upgrades and downgrades of individuals or classes of positions authorized by the Department of Administration during the biennium through the "snapshot" date (June 1996) are included in present law.

Any adjustments to personal services from means within the control of the executive, such as overtime, new or deleted positions, or proposed transfers, should not be included in the statewide adjustments. If the LFD analyst has identified any of the adjustments in the statewide adjustment line., they are discussed as an LFD issue.

Inflation/Deflation

The Executive Budget has inflated or deflated certain operating expenses. Each agency budget is automatically adjusted to add inflation to or subtract deflation from the relevant expenditure items. Therefore, changes to inflation/deflation amounts in the agencies can only be made through an adjustment to the actual expenditure against which the inflation/deflation is applied, rather than to the inflation/deflation factor, itself.

A complete listing of expenditure categories inflated or deflated in the Executive Budget has been included in the "Reference" section.

Fixed Costs

Fixed costs are those costs charged to agencies to fund the operations of certain centralized service functions of state government, such as data network fees, messenger services, and legislative audit. Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency's budget, as appropriate. Any changes to these allocations must be made through a change to the service agency's budget, or to the allocation method used by the service agency. The General Government and Natural Resources Subcommittees will review the fixed costs proposals.

A complete listing of all fixed costs is included in the "Reference" section of the LFD Overview Volume.

GENERAL GOVERNMENT AND TRANSPORTATION

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS
AND SENATE FINANCE AND CLAIMS COMMITTEES

- Legislative Branch
  - Legislative Audit Division
  - Legislative Fiscal Division
  - Legislative Services Division
- Consumer Counsel
- Judiciary
- Montana Chiropractic Legal Panel
- Governor's Office
- Secretary of State
- Commissioner of Political Practices
- State Auditor
- Transportation
- Revenue
- Administration
- Appellate Defender Commission
- Public Employees' Retirement Board
- Teachers' Retirement Board

--------------Committee Members--------------

House

Representative Ed Grady (Chair)
Representative Bob Keenan
Representative Joe Quilici

Senate

Senator Loren Jenkins (Vice-Chair)
Senator Eve Franklin
Senator Dale Mahlum

--------------Fiscal Division Staff--------------

Skip Culver
Jim Turner
Cindy Weaver

-------------- OBPP Representative--------------

Bob Andersen
Mary LaFond
John Patrick

1104 00 Agency Proposed Budget				Legislative Branch				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	123.27	(3.00)	0.00	120.27	2.17	0.00	125.44	120.27
Personal Services	4,762,380	806,107	0	5,568,487	975,628	0	5,738,008	11,306,495
Operating Expenses	1,632,953	420,415	2,250	2,055,618	273,289	2,250	1,908,492	3,964,110
Equipment	432,445	(270,365)	0	162,080	(283,065)	0	149,380	311,460
Total Costs	$6,827,778	$956,157	$2,250	$7,786,185	$965,852	$2,250	$7,795,880	$15,582,065
General Fund	4,791,976	729,924	2,250	5,524,150	1,320,149	2,250	6,114,375	11,638,525
State/Other Special	2,035,802	226,233	0	2,262,035	(354,297)	0	1,681,505	3,943,540
Total Funds	$6,827,778	$956,157	$2,250	$7,786,185	$965,852	$2,250	$7,795,880	$15,582,065

Mission Statement

To provide a consolidated administrative structure to support accomplishment of the mission of the legislature. The mission of the legislature is to exercise the legislative power of state government vested in the legislature by the Constitution of the State of Montana.

Agency Description

The Legislative Branch consists of the legislature and its staff divisions (except the Consumer Counsel) as provided in 5-2-503, MCA. The principal entities of the consolidated agency are the Senate and the House of Representatives, the Legislative Services Division, the Legislative Fiscal Division, and the Legislative Audit Division. The branch was reorganized into one agency in SB 398 during the 1995 session, as described in the next section.

Reorganization

Senate Bill 398, passed in the 1995 session, reorganized the Legislative Branch with a goal of providing a more efficient organization. Except for the Consumer Counsel, the formerly separate entities of the branch were administratively organized as one agency, the Legislative Branch. Entities consolidated include the Legislative Services Division (formerly Legislative Council and Environmental Quality Council Offices), the Legislative Fiscal Division (formerly Office of the Legislative Fiscal Analyst), and the Legislative Audit Division (formerly Office of the Legislative Auditor). The budgets for these staff divisions are presented in this section as part of HB 2. In addition to the staff divisions, the House and Senate of the Legislature were included in the consolidation.

In addition to the administrative consolidation, the reorganization achieved the following:

- Required a consolidated branch pay and classification plan and personnel administration that follows statewide policy. The revised plan had goals of providing internal equity and equity with the executive branch, and being market based. The new plan was implemented in November 1996.

- Revised membership and duties of legislative interim committees, including the appointment of

leadership to the Legislative Council

- Eliminated duties of the branch considered obsolete or unnecessary

Budget Summary

The administrative reorganization of entities within the branch shifted certain costs among the divisions, and so the budget can be better understood from a look at the total agency. An explanation of adjustments due to reorganization as well as other budget issues are provided below.

Table 1 provides a comparison of the Legislative Branch 1999 biennium budget request to the 1997 biennium. (Note that this is a biennium to biennium comparison, and is not a reflection of increases from the base for budget purposes, as shown in the program budget presentations.) As shown in the table, the increase over the 1997 biennium is 9.6 percent. The table provides a summary of the primary reasons for the increase.

Table 1
Legislative Branch
Biennial Comparison
1997 to 1999 Biennium

Description	Amount	Percent
"Statewide" Issues		
SB 398 - Legislative Branch Pay Plan Implementation	$448,592	3.2%
1997 Biennium Pay Plan Annualization	348,685	2.5%
Vacancy Savings/Other Personal Svcs Adjustments	269,158	1.9%
Fixed Cost Increases (Rent, fees, network fees, other)	117,923	0.8%
Subtotal	$1,184,358	8.3%
Branch Policy (Committee Recommendations)		
Interim Committees/Interstate Cooperation	$123,621	0.9%
New Proposals	4,500	0.0%
All Other	54,111	0.4%
Total	$1,366,590	9.6%

Of the $1.4 million increase, $1.2 million is attributable to "statewide" issues, defined as "non-discretionary", in that they are driven by statutory requirement or by global budget action. Those statewide budget increases include: 1) implementation of the legislative branch pay plan required in Senate Bill 398; 2) annualization of the current biennium pay plan (i.e., the additional cost to pay the pay increases over a full biennium as compared to partial year payment in the current biennium); and 3) other personal services adjustments (the amount necessary to fully fund all authorized existing positions in the branch).

Additionally, fixed costs that are charged by other agencies for services provided increase by $118,000. These fixed cost charges will be reviewed by the appropriations committees. In total, "non-discretionary" increases add 8.3 percent to the budget.

"Discretionary" increases approved for budget submission by the approving authority legislative committees (Legislative Council, Legislative Finance Committee, and Legislative Audit Committee) are $182,00, or 1.3 percent of the total budget. The primary increase is for legislative interim committees and interstate cooperation, of which dues for the National Conference of State Legislators (NCSL) is the largest component. A new proposal is included for continuation of the statutorily required biennial review of earmarked and statutorily appropriated accounts. All other costs of the branch increase by $54,000, or 0.4 percent of the total budget.

As part of the administrative reorganization, all fixed cost payments were consolidated in the Legislative Services Program, which inflates that budget, although the net impact on branch costs is zero. Additionally, the branch budget in HB 2 reflects an increase of nearly $35,000 in fixed costs (payroll and data network fees) that were transferred from the House and Senate (formerly in the feed bill). Other budget adjustments related to the reorganization are discussed in the program budget presentations.

The 1995 legislature reduced branch FTE by 13.75 from 1995 biennium levels.

1104 00
Legislative Branch — **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	120.27	0.00	120.27	125.44	0.00	125.44	123.27	120.27
Personal Services	5,568,487	0	5,568,487	5,738,008	0	5,738,008	10,240,060	11,306,495
Operating Expenses	2,053,368	2,250	2,055,618	1,906,242	2,250	1,908,492	3,226,638	3,964,110
Equipment	162,080	0	162,080	149,380	0	149,380	748,777	311,460
Total Costs	$7,783,935	$2,250	$7,786,185	$7,793,630	$2,250	$7,795,880	$14,215,475	$15,582,065
General Fund	5,521,900	2,250	5,524,150	6,112,125	2,250	6,114,375	10,342,069	11,638,525
State/Other Special	2,262,035	0	2,262,035	1,681,505	0	1,681,505	3,873,406	3,943,540
Non-Expendable Trust	0	0	0	0	0	0	0	0
Total Funds	$7,783,935	$2,250	$7,786,185	$7,793,630	$2,250	$7,795,880	$14,215,475	$15,582,065

1104 20 Legislative Branch Program Proposed Budget			Legislative Services					
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	48.50	0.00	0.00	48.50	5.17	0.00	53.67	48.50
Personal Services	1,808,546	322,532	0	2,131,078	478,245	0	2,286,791	4,417,869
Operating Expenses	1,228,698	377,280	0	1,605,978	245,397	0	1,474,095	3,080,073
Equipment	421,861	(271,861)	0	150,000	(283,861)	0	138,000	288,000
Total Costs	$3,459,105	$427,951	$0	$3,887,056	$439,781	$0	$3,898,886	$7,785,942
General Fund	2,487,117	426,169	0	2,913,286	974,529	0	3,461,646	6,374,932
State/Other Special	971,988	1,782	0	973,770	(534,748)	0	437,240	1,411,010
Total Funds	$3,459,105	$427,951	$0	$3,887,056	$439,781	$0	$3,898,886	$7,785,942

Program Description

The Legislative Services Program provides support services to the legislature under the direction of the twelve member Legislative Council. Program services include: 1) bill drafting and the engrossing and enrolling of bills; 2) printing and distribution of legislative proceedings, session laws, and journals of the House and Senate; 3) provision of legislative research and reference services, including environmental issues under the Legislative Environmental Policy Office; 4) legal counsel for the legislature; 5) committee staffing: 6) provision of interim investigation authority; 7) preparation and publication of the Montana Code Annotated statute text and annotations; 8) review of the text of proposed ballot measures and proposed administrative rules; and 9) other services as assigned by the legislature.

Funding

The program is funded by general fund, except for state special revenue that supports personal services and operating costs associated with publication of the Montana Code Annotated text, annotations, and other publications.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to

1104 20 Legislative Branch Legislative Services			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	322,532	478,245
02		Inflation/Deflation	(17,159)	(29,270)
03		Fixed Costs	116,086	208,351
		Total Statewide Adjustments	$421,459	$657,326
Significant Present Law Adjustments				
04	91001	Branch Network	(46,844)	154,130
05	91002	Cyclical Costs	72,411	(360,618)
06	91003	Legislative Labrary	5,505	5,161
07	91004	Committee Costs Moved	(16,693)	(16,694)
08	91005	Other Operating	(7,887)	476
		Total Significant PL Adjustments	$6,492	($217,545)
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$427,951	$439,781

the narrative descriptions.

1) Personal Services - In addition to increased costs described in the agency summary, this program includes increased personal services for the cyclical session employee costs in fiscal 1999. They do not occur in the non-session base year.

3) Fixed Costs - All fixed costs for the branch were transferred to this program as part of the branch reorganization. It results in a large increase for this program, but there is a partial offset due to reductions in other branch programs to reflect the transfer. Additionally, fixed costs of $34,000 for the House and Senate were transferred to this program (formerly in the feed bill). The net increase in fixed costs for the branch over fiscal 1996 is approximately $59,000 each year.

4) Branch Network - The Legislative Branch Network budget reflects policy recommended by the Branch Computer Systems Planning Council and adopted by the Legislative Council that the biennial budget remain at the level of the previous biennium except for changes resulting from Department of Administration rates. Changes occur between fiscal years as a result of project scheduling requirements, including those related to the 1999 session not seen in the base year. For a true understanding of the budget in this area, the reader is referred to the prioritized list of funded projects in the current Legislative Branch Computer System Plan.

5) Cyclical Costs - Cyclical cost variations result from the biennial session schedule of the legislature. Funding affected is primarily state special revenue. The fiscal year 1998 increase of $72,411 state special revenue represents an estimated printing cost increase for printing of the Montana Code Annotated Statute Text and Index in September 1997. Actual cost depends on the number of pages resulting from the current session. The $360,618 reduction in fiscal year 1999 is the net reduction in special revenue expenditure (statute text and index are not printed that year), the cost of printing Annotations, and an increase in general fund photocopy and printing expense for the 1999 legislative session.

6) Legislative Library - Subscription rate increases result in an increase of $4,500 in fiscal year 1998 and $5,200 in fiscal year 1999. Electronic access charges increase by $800 each year. The remainder of the increase is miscellaneous net changes.

7) Committee Costs Moved - As part of reorganization, committee costs in this program were moved to the Legislative Committees and Activities Program. General fund reductions as a part of this action are $16,700 a year but reflect a corresponding increase in the Legislative Activities and Activities Program for the costs of the Legislative Council and the Environmental Quality Council.

8) Other Operating - Minor adjustments in all other functions reflect a biennial reduction from the base year 1996.

1104 21 Legislative Branch Program Proposed Budget	Legislative Committees & Activities							
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.97	0.00	0.00	0.97	0.00	0.00	0.97	0.97
Personal Services	18,078	5,574	0	23,652	5,575	0	23,653	47,305
Operating Expenses	95,769	65,147	0	160,916	65,150	0	160,919	321,835
Total Costs	$113,847	$70,721	$0	$184,568	$70,725	$0	$184,572	$369,140
General Fund	103,562	67,695	0	171,257	67,698	0	171,260	342,517
State/Other Special	10,285	3,026	0	13,311	3,027	0	13,312	26,623
Total Funds	$113,847	$70,721	$0	$184,568	$70,725	$0	$184,572	$369,140

Program Description

The Legislative Committees and Activities Program processes and monitors the expenditures of the various legislative committees and activities, particularly those conducted during the interim between legislative sessions. Services include: 1) limited support of interim studies activities established under sections 5-5-202 through 5-5-217, MCA; 2) support of interstate cooperation activities of the legislature; and 3) support of other legislative activities for which appropriations are made.

Funding

The program is funded primarily by general fund. Other committees are funded from time to time from other sources. Funding is typically biennial since the interim work pattern of the Legislature is better reflected through biennial appropriations.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1104 21 Legislative Branch Legislative Committees & Activities			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	5,574	5,575
02		Inflation/Deflation	0	0
03		FixedCosts	0	0
		Total Statewide Adjustments	$5,574	$5,575
Significant Present Law Adjustments				
03	91001	Organization Participation	38,580	38,581
04	91002	Committee Costs Moved	26,567	26,569
		Total Significant PL Adjustments	$65,147	$65,150
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$70,721	$70,725

3) Organizational Participation - Dues and travel for the National Conference of Commissioners on Uniform State Laws (NCCUSL) increase by $2,234 a year. Dues only are budgeted for NCSL for an increase over base of $36,346 in fiscal year 1998 and $36,347 in fiscal year 1999.

4) Committee Costs Moved - Meeting costs for the Legislative Council and Environmental Quality Council previously budgeted in the Legislative Services Program and the former Environmental Quality Council Program result in an increase in this program but no net change in the agency. State special revenue is from the Resource Indemnity Trust (Reclamation and Development account) of $8,899 a year transferred from the former Water Policy Committee Program is categorically related to the water quality functions of the Environmental Quality Council.

1104 27 Legislative Branch Program Proposed Budget				Fiscal Analysis & Review				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	15.80	0.00	0.00	15.80	0.00	0.00	15.80	15.80
Personal Services	703,754	100,981	0	804,735	107,963	0	811,717	1,616,452
Operating Expenses	71,600	(8,631)	2,250	65,219	14,664	2,250	88,514	153,733
Equipment	0	1,500	0	1,500	1,500	0	1,500	3,000
Total Costs	$775,354	$93,850	$2,250	$871,454	$124,127	$2,250	$901,731	$1,773,185
General Fund	775,354	93,850	2,250	871,454	124,127	2,250	901,731	1,773,185
Total Funds	$775,354	$93,850	$2,250	$871,454	$124,127	$2,250	$901,731	$1,773,185

Program Description

The Fiscal Analysis and Review Program encompasses the operations and responsibilities of the Legislative Fiscal Division. The division was established in 1974 to provide to the legislature fiscal analysis of state government and to research, compile, analyze, and provide information bearing upon the financial matters of the state and policy issues of statewide importance. The duties of the Legislative Fiscal Analyst are provided in the Legislative Finance Act (Title 5, Chapter 12, MCA). The Legislative Finance Committee oversees the operation of the division.

Funding

The program is funded by general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1104 27 Legislative Branch Fiscal Analysis & Review			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	100,981	107,963
02		Inflation/Deflation	(3,973)	(9,871)
03		Fixed Costs	(17,426)	(17,426)
		Total Statewide Adjustments	$79,582	$80,666
Significant Present Law Adjustments				
04	91001	Lfc Meetings/Support	9,268	7,461
05	91002	Session Costs	0	31,000
06	91003	Legislative Requests	5,000	5,000
		Total Significant PL Adjustments	$14,268	$43,461
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$93,850	$124,127

1) Personal Services - In addition to statewide issues, an increase of $6,325 for staff support overtime over the fiscal 1996 base is included for the cyclical costs in the second year of the biennium as a result of pre-session budget analysis and legislative session schedules.

4) LFC Meetings/Support - Increases are for support of the Legislative Finance Committee interim meetings and projects. They include travel costs for members to attend meetings and increased staff support for subcommittee proceedings and workload. Fewer meetings were held in fiscal 1996, although the total budgeted meeting days for the 1999 biennium are the same as appropriated for the 1997 biennium.

5) Session Costs - Fiscal 1999 costs increase $31,000 over fiscal 1996 due to cyclical costs associated with the legislative session, including computer processing, printing, and communications. These costs do not occur in the base year, but a similar increase is included in the fiscal 1997 appropriation for session costs.

6) Legislative Requests - This is a biennial appropriation for data processing charges associated with legislative requests for complex issues such as tax models. No funds were spent in the base year, but expenses are expected during the legislative session. This $10,000 biennial appropriation was inadvertently left out of the 1997 biennium appropriation, resulting in an overstatement of the increase in this budget when making biennial comparisons.

1104 27

Legislative Branch **Fiscal Analysis & Review**

Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Sb378 Biennial Review		2,250		2,250		2,250		2,250
	Total For New Proposals		$2,250		$2,250		$2,250		$2,250

Executive New Proposals

1) SB 378 Biennial Review - A biennial review of earmarked revenues and statutory appropriations is required in 17-1-505, MCA. The funds will be used for costs of a subcommittee of the Legislative Finance Committee to complete the review. Funding has been authorized for the last two biennia in a language appropriation authorizing the use of carryover funds from another study. This general fund request of $2,250 each year would provide continued funding for the review.

1104 28 Legislative Branch Program Proposed Budget	Audit & Examination							
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	55.00	0.00	0.00	55.00	0.00	0.00	55.00	55.00
Personal Services	2,232,002	377,020	0	2,609,022	383,845	0	2,615,847	5,224,869
Operating Expenses	236,886	(13,381)	0	223,505	(51,922)	0	184,964	408,469
Equipment	10,584	(4)	0	10,580	(704)	0	9,880	20,460
Total Costs	$2,479,472	$363,635	$0	$2,843,107	$331,219	$0	$2,810,691	$5,653,798
General Fund	1,425,943	142,210	0	1,568,153	153,795	0	1,579,738	3,147,891
State/Other Special	1,053,529	221,425	0	1,274,954	177,424	0	1,230,953	2,505,907
Total Funds	$2,479,472	$363,635	$0	$2,843,107	$331,219	$0	$2,810,691	$5,653,798

Program Description

The Legislative Audit Division, established in 1967, is governed by the Legislative Audit Act, contained in Title 5, Chapter 13, MCA. Article V, Section 10 of the Montana constitution mandates a legislative post-audit function. The division works under the direction of the Legislative Audit Committee.

The division is divided into three sections: 1) Financial Compliance Audit, which performs biennial audits of all state agencies, an annual statewide financial audit, and biennial federal single audit; 2) Performance Audit, which conducts audits of state agencies to determine program effectiveness, efficiency, and compliance with established laws, rules, goals and objectives; and 3) Electronic Data Processing Audit, which evaluates data processing systems and controls independently and in conjunction with financial compliance and performance audits.

Funding

The program is funded by a combination of general fund and special revenue appropriations. Special revenue is derived through the assessment of approved hourly rate charges to agencies for the performance of audit services. A discussion of the audit rates charged for this agency can be found in the "Proprietary Rate Setting and State Fund" section.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law.

1104 28 Legislative Branch Audit & Examination			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	377,020	383,845
02		Inflation/Deflation	0	0
03		Fixed Costs	(62,136)	(62,136)
		Total Statewide Adjustments	$314,884	$321,709
Significant Present Law Adjustments				
04	91001	Professional Services	25,000	25,000
05	91002	Independent Audit Costs	25,800	(12,700)
06	91003	Other Operating	(2,049)	(2,790)
		Total Significant PL Adjustments	$48,751	$9,510
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$363,635	$331,219

Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Professional Services - Items included in this category are associated with the hiring of an actuarial consultant for the annual audit of the state's retirement systems; hiring a consultant to complete a disaster recovery plan for the Legislative Branch; and contracting with the National State Auditor's Association for the Peer Review required by Government Auditing Standards.

5) Independent Audit Costs - These present law adjustments relate to cyclical costs associated with the biennial financial-compliance audit of the Legislative Branch and the cost associated with contracting with an independent auditor for a security audit of the Legislative Branch computer systems.

6) Other Operating - These present law adjustments relate to training, maintenance of a subscription list, and decreases in other categories associated with anticipated reductions in operating expenses.

1112 00 Agency Proposed Budget				Consumer Counsel				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	5.01	0.00	0.00	5.01	0.00	0.00	5.01	5.01
Personal Services	291,510	27,333	0	318,843	28,289	0	319,799	638,642
Operating Expenses	511,705	168,561	0	680,266	186,388	0	698,093	1,378,359
Equipment	13,599	269	0	13,868	(2,499)	0	11,100	24,968
Total Costs	$816,814	$196,163	$0	$1,012,977	$212,178	$0	$1,028,992	$2,041,969
State/Other Special	816,814	196,163	0	1,012,977	212,178	0	1,028,992	2,041,969
Total Funds	$816,814	$196,163	$0	$1,012,977	$212,178	$0	$1,028,992	$2,041,969

Mission Statement

To represent the utility and transportation consuming public of the State of Montana in hearings before the public service commission or any other successor agency, and before state and federal courts and administrative agencies.

Agency Description

The Office of the Consumer Counsel was created by Article XIII, Section 2 of the 1972 Montana Constitution. The office is governed by Title 5, Chapter 15, MCA, and Title 69, Chapters 1 and 2, MCA. The Consumer Counsel is charged with the duty of "representing consumer interests in hearings before the Public Service Commission or any other successor agency." The Consumer Counsel also may initiate, intervene in, or otherwise participate in appropriate proceedings in the state and federal courts and proceedings before federal administrative agencies on behalf of the public of Montana.

As in previous years, the 1999 biennium budget for the Consumer Counsel is presented as submitted by the agency in accordance with section 17-7-122(2), MCA, and consists of a base appropriation for normal operating costs and a $100,000 contingency appropriation each fiscal year for costs associated with unanticipated increased caseload.

1112 00 Consumer Counsel				Biennium Budget Comparison				
Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	5.01	0.00	5.01	5.01	0.00	5.01	5.01	5.01
Personal Services	318,843	0	318,843	319,799	0	319,799	606,007	638,642
Operating Expenses	680,266	0	680,266	698,093	0	698,093	1,249,507	1,378,359
Equipment	13,868	0	13,868	11,100	0	11,100	15,924	24,968
Total Costs	$1,012,977	$0	$1,012,977	$1,028,992	$0	$1,028,992	$1,871,438	$2,041,969
State/Other Special	1,012,977	0	1,012,977	1,028,992	0	1,028,992	1,871,438	2,041,969
Total Funds	$1,012,977	$0	$1,012,977	$1,028,992	$0	$1,028,992	$1,871,438	$2,041,969

Funding

The sole funding source for the Consumer Counsel is a constitutionally-earmarked tax levied on all regulated entities under the Public Service Commission's jurisdiction. The tax rate can be revised quarterly as necessary to adjust for a cash carryover from the previous fiscal year, preventing the accumulation of a significant cash balance.

Executive Present Law

1112 01 **Consumer Counsel** **Administration Program** Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	27,333	28,289
02		Inflation/Deflation	(226)	(305)
03		Fixed Costs	1,552	1,519
		Total Statewide Adjustments	$28,659	$29,503
Significant Present Law Adjustments				
04	91001	Contingency	100,000	100,000
05	91002	Increase Operating	67,235	85,174
06	91003	Replacement Equipment	269	(2,499)
		Total Significant PL Adjustments	$167,504	$182,675
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$196,163	$212,178

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Contingency - The counsel budget includes $100,000 contingency each year of the 1999 biennium for costs associated with unanticipated workload, consistent with budgets in prior biennia.

5) Anticipated Workload - Based on historical experience and anticipated need, the counsel includes $67,235 in fiscal 1998 and $85,174 in fiscal 1999 for operating related expenses.

6) Replacement Equipment - There was $13,599 expended in fiscal 1996 for equipment. Replacement equipment purchases include $13,868 in fiscal 1998 and $11,100 in fiscal 1999 for office furniture, printer, computer and telephone equipment replacement. These increases reflect a net increase of $269 in fiscal 1998 and a reduction of $2,499 in fiscal 1999.

2110 00

Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Judiciary				
FTE	98.25	0.00	4.50	102.75	0.00	6.00	104.25	102.75
Personal Services	5,483,007	374,126	134,498	5,991,631	386,067	180,453	6,049,527	12,041,158
Operating Expenses	1,141,370	455,897	118,164	1,715,431	434,314	117,007	1,692,691	3,408,122
Equipment	404,721	(16,689)	19,624	407,656	(72,439)	14,124	346,406	754,062
Grants	214,134	450,432	0	664,566	450,525	0	664,659	1,329,225
Total Costs	$7,243,232	$1,263,766	$272,286	$8,779,284	$1,198,467	$311,584	$8,753,283	$17,532,567
General Fund	6,053,315	735,782	266,150	7,055,247	665,944	310,948	7,030,207	14,085,454
State/Other Special	1,103,958	455,218	6,136	1,565,312	459,757	636	1,564,351	3,129,663
Federal Special	85,959	72,766	0	158,725	72,766	0	158,725	317,450
Total Funds	$7,243,232	$1,263,766	$272,286	$8,779,284	$1,198,467	$311,584	$8,753,283	$17,532,567

Mission Statement

The judicial branch of state government is provided for in Article III, Section 1, and Article VII of the 1972 Montana Constitution. The jurisdiction of the Supreme Court consists of all appellate and original jurisdiction in petitions for writs of habeas corpus and other such writs, general supervisory control over all courts, and rule making for Montana courts.

Agency Description

Jurisdiction of the Supreme Court consists of all appellate and original jurisdiction in petitions for writs of habeas corpus and other such writs, general supervisory control over all courts, and rule making powers for Montana courts. The court supervises the reimbursement to district courts of certain costs of criminal cases and administers the state court automation program. The court also supervises the local citizen review board pilot program for foster care placements, and the federal court assessment program to determine how courts are handling abuse, neglect, foster care, and adoption cases.

Table 1
Judicial Branch Request

Detail Summary	FY1998 Judicial Request	FY1998 Executive Non-Funded	FY1999 Judicial Request	FY1999 Executive Non-Funded
Full -Time Equivalent (FTE)	105.50	2.75	105.50	1.25
Personal Services	$6,313,060	$321,429	$6,336,608	$287,081
Operating	1,663,461	(51,970)	1,641,859	(50,832)
Equipment	470,064	62,408	404,407	58,001
Grants to Counties	664,566	0	664,659	0
Total Agency	9,111,151	331,867	9,047,533	294,250
General Fund	$7,369,164	$313,917	$7,306,460	$276,253
State Special	1,583,237	17,925	1,582,323	17,972
Federal Special	158,750	25	158,750	25
Total Funding	$9,111,151	$331,867	$9,047,533	$294,250
Supreme Court Operations	$3,862,884	$101,586	$3,800,322	$78,064
Boards and Commissions	324,950	24,229	320,641	21,431
Law Library	690,876	70,788	689,552	60,025
District Court Operations	3,414,604	117,152	3,422,618	116,776
Water Court	583,237	12,533	582,323	12,537
Clerk of Court	234,600	5,579	232,077	5,417
Total Program	$9,111,151	$331,867	$9,047,533	$294,250

Agency Narrative

The Judicial branch budget request is presented in the table above in accordance with 17-7-122(3), MCA, which states: "Judicial branch requests must be included in the budget submitted by the governor, but expenditures above the current level funding need not be part of the balanced financial plan pursuant to 17-7-123, MCA."

An explanation of the significant elements of the Judicial branch request that were not included in the Governor's recommendations follows:

1) Personal Services - A 3 percent vacancy savings has been applied to all positions of this agency, including elected officials and the new positions approved during the executive planning process (EPP), consistent with all other agencies. In addition, 1.25 FTE have been reduced each year of the biennium and the associated $80,639 in funding has been moved from personal services to contracted services. Finally, 6.00 FTE are being recommended in accordance with the branch's new proposals, but the positions were reduced by 25 percent in the first year of the biennium, consistent with new proposals approved for all other agencies.

2) Operating - The $80,639 moved from personal services to contracted services each year of the biennium is the significant element in this particular area. In addition, there were changes in fixed costs and inflation and deflation factors after the budget was submitted by the branch to the Office of Budget and Program Planning.

3) Equipment - The request for inflation for law library books was excluded from the executive recommendation because the present law inflation factors agreed to by the Office of Budget and Program Planning and the Legislative Fiscal Division do not provide for library book inflation. The addition of a systems librarian as recommended by the executive would allow for the electronic access to law library materials and would reasonably be offset by a reduction of hard copy purchases. There was $288,063 requested each year of the biennium and the $242,757 fiscal 1996 actual expenditure is being recommended each year of the biennium.

2110 00
Judiciary

Biennium Budget Comparison

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	98.25	4.50	102.75	98.25	6.00	104.25	98.25	102.75
Personal Services	5,857,133	134,498	5,991,631	5,869,074	180,453	6,049,527	11,055,225	12,041,158
Operating Expenses	1,597,267	118,164	1,715,431	1,575,684	117,007	1,692,691	2,475,969	3,408,122
Equipment	388,032	19,624	407,656	332,282	14,124	346,406	1,307,304	754,062
Grants	664,566	0	664,566	664,659	0	664,659	214,134	1,329,225
Total Costs	$8,506,998	$272,286	$8,779,284	$8,441,699	$311,584	$8,753,283	$15,052,632	$17,532,567
General Fund	6,789,097	266,150	7,055,247	6,719,259	310,948	7,030,207	12,227,455	14,085,454
State/Other Special	1,559,176	6,136	1,565,312	1,563,715	636	1,564,351	2,629,218	3,129,663
Federal Special	158,725	0	158,725	158,725	0	158,725	195,959	317,450
Total Funds	$8,506,998	$272,286	$8,779,284	$8,441,699	$311,584	$8,753,283	$15,052,632	$17,532,567

2110 01
Judiciary
Program Proposed Budget

Supreme Court Operations

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	37.75	0.00	3.00	40.75	0.00	4 00	41.75	40.75
Personal Services	1,682,564	170,200	76,321	1,929,085	171,083	101,763	1,955,410	3,884,495
Operating Expenses	626,256	335,002	79,370	1,040,628	321,769	79,370	1,027,395	2,068,023
Equipment	136,269	(17,250)	8,000	127,019	(69,475)	8,000	74,794	201,813
Grants	214,134	450,432	0	664,566	450,525	0	664,659	1,329,225
Total Costs	$2,659,223	$938,384	$163,691	$3,761,298	$873,902	$189,133	$3,722,258	$7,483,556
General Fund	1,998,644	445,630	163,691	2,607,965	381,191	189,133	2,568,968	5,176,933
State/Other Special	574,620	419,988	0	994,608	419,945	0	994,565	1,989,173
Federal Special	85,959	72,766	0	158,725	72,766	0	158,725	317,450
Total Funds	$2,659,223	$938,384	$163,691	$3,761,298	$873,902	$189,133	$3,722,258	$7,483,556

Program Description

The Supreme Court has appellate jurisdiction over the State of Montana. It has original jurisdiction to issue, hear, and determine writs of habeas corpus and other such writs as may be provided by law. It also has general supervisory control over all other courts in the state. The Supreme Court is charged with establishing rules governing appellate procedure, the practice and procedure for all other courts, admission to the bar, and the conduct of the members. The Supreme Court consists of a chief justice and six justices. The Supreme Court Operations Program manages the day-to-day operations of the court and administers the local citizen review board pilot program for foster care placements, the federal court assessment program, the state court automation program, and the district court criminal reimbursement program.

Funding

The Supreme Court Operations program is funded with general fund, state special revenue funds, and federal funds. General fund supports supreme court operations and continuation of the local foster care review board pilot program, and is used as match for the portion of federal funds supporting a foster care study ($108,750 per year). State special revenue comes from a $5 user surcharge on court filings and state child support enforcement funds and amounts to approximately $994,000 per year in this budget. The Executive Budget includes $158,725 in federal grant funds each year of the 1999 biennium.

Executive Present Law

2110 01 Judiciary Supreme Court Operations Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	170,200	171,083
02		Inflation/Deflation	(2,655)	(2,936)
03		Fixed Costs	97,524	84,537
		Total Statewide Adjustments	$265,069	$252,684
Significant Present Law Adjustments				
04	91001	Equipment	(17,250)	(69,475)
05	91002	Supreme Court Operations	114,384	114,384
06	91811	Court Automation	450,432	450,525
07	91911	Foster Care Local Review Board	5,950	5,985
08	91921	Federal Court Assessment Study	119,799	119,799
		Total Significant PL Adjustments	$673,315	$621,218
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$938,384	$873,902

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Equipment - The branch is requesting $119,019 in fiscal 1998 and $66,794 in fiscal 1999 for the replacement of computers, office equipment and furniture, and upgrades of single user software. This is a reduction of $17,250 in fiscal 1998 and $69,475 in fiscal 1999 from the fiscal 1996 actual expenditures.

LFD Comment **- There are 37.75 FTE authorized for the Supreme Court Operations program. Using the actual equipment expenditures in fiscal 1996 and the proposed equipment budgets for the 1999 biennium, the average equipment expenditure per FTE was $3,609 in fiscal 1996, while for the 1999 biennium the request per FTE is $3,152 in fiscal 1998 and $1,769 in fiscal 1999.**

5) Supreme Court Operations - Under the consultant and professional services cost category, the branch is requesting $10, 000 each year of the biennium for training clerks of court in all 56 counties. The branch requests authority to contract for a program coordinator to oversee the federal "STOP Violence Against Women" grant funded through the Board of Crime Control at $50,000 per year. The court wants to implement record retention using imaging technology by contracting for the services at an estimated cost of $40,000 per year. Total fiscal 1996 actual expenditures in this cost category were $6,184, and this request is an increase of $93,816 in fiscal 1998 and fiscal 1999.

The balance of the $114,384 annual increase for Supreme Court operations over fiscal 1996 actuals includes: $3,562 for on-line use of Westlaw and Lexis legal research; $1,094 for printing costs; $963 for office supplies and materials; $1,170 for postage; $3,000 for out-of-state travel costs; $4,414 for increased dues to the National Center for State Courts; $6,533 for the justices' registration fees to attend appellate training courses; and a reduction of $168 for temporary services.

LFD Issue **- The Executive Budget for the Judiciary has included as a present law adjustment general fund of $40,000 each year of the 1999 biennium in the Supreme Court Operations program and $20,000 each year for the Boards and Commissions program to add "imaging technology" to copy and store court documents and records. This technology uses digital photography to copy and retain documents on a magnetic format accessible by computer. Because this is a major technology upgrade, it should not be a present law adjustment, but instead a new proposal.**

6) Court Automation - An increase of $450,432 in fiscal 1998 and $450,525 in fiscal 1999 over the fiscal 1996 base of $214,134 is requested to fund placement of computers, printers, and software in the 250 courts statewide. This request is supported with the $5.00 user surcharge in criminal, civil, and probate cases in all courts as authorized by HB 176 from

the 1995 legislative session.

LFD Comment **- The 1995 legislature imposed a $5.00 surcharge on all district court and lesser court transactions to fund a court automation program. In fiscal 1996, the surcharge generated $689,162 in revenue, of which the Judiciary expended $214,134. Because fiscal 1996 was the year of implementation, the program did not expend at the levels budgeted due to delays necessary for design and implementation. The surcharge expires on June 30, 1999. However, the court automation systems now in place will continue to undergo system upgrades appropriate to future software platforms. It is likely that the court will request an extension of the surcharge beyond the 1999 expiration. The computer systems placed in the courts are already out-of-date, and the software used in developing the court systems was not the approved state standard.**

7) Foster Care Local Review Board - The branch is requesting an additional $5,950 each year of the biennium in an effort to annualize the operational costs of this new program.

8) Federal Court Assessment Study - The branch received a five-year federal grant in 1995 that requires a 25 percent state match to perform a foster care/adoption study and implement the recommendations arising out of the study. Rather than add permanent FTE, the branch chose to use modified positions. The costs of $80,639 per fiscal year associated with these modified positions are reflected in the contracted services request of the branch. The branch also is requesting $34,129 each year to contract for professional services to perform statistical analysis, develop a reviewer questionnaire, and collect and analyze the results. Total contracted services increase by $109,813 over the 1996 actual expenditures of $4,955 each year of the biennium, but personal services decrease by $80,639 as well. The balance of the increase is associated with annualization of operating expenses.

LFD Issue **- To conduct this foster care study, federal funds were used to hire 1.25 FTE for the duration of the five-year grant. However, to avoid the appearance of adding permanent FTE , the Supreme Court does not include these FTE in the personal services budget request. Instead, funds to pay for the FTE's are included as contracted services. When the budget was implemented at the beginning of the last fiscal year, these funds were moved into personal services and the FTEs were added as modified (temporary) positions. This procedure gives the appearance of adding no positions to the budget; however, it does understate the true FTE and the personal services budget of both the Judiciary Branch and the Executive Budget. If the legislature concurs with adding funds to continue this study, these positions should be approved as FTE. When the federal grant expires, the Supreme Court can reduce the FTE included in the budget.**

LFD Issue **- The 1995 legislature included general fund of $35,000 per year during the 1997 biennium as the state's matching share of this federal grant. However, the state's accounting records show no general fund expenditures in support of this grant. Yet, only $9,644 in general fund remained as unexpended by the Supreme Court at the end of fiscal 1996. It would appear that these funds were expended in an area of court operations and were not matched to the federal grant as intended by the legislature. This present law increase is general fund to match this grant. If these funds were expended in an area of the budget other than as intended by the 1995 legislature they should be removed from the base as a negative present law adjustment. The legislature may wish to restrict this appropriation in the 1999 biennium to this purpose only.**

2110 01 Judiciary Executive Budget New Proposals					Supreme Court Operations			
	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Expand Local Citizens Review B	3.00	163,691		163,691	4.00	189,133		189,133
Total For New Proposals	3.00	$163,691		$163,691	4.00	$189,133		$189,133

Executive New Proposals

1) Expand Local Citizens Review Board - The 1993 legislature passed the Local Citizens Review Board Pilot Program Act. This act established, in the judicial branch, a program to have local volunteer citizen review boards examine the case of each child assigned to foster care by a district court (41-3-1001 through 1014, MCA). The program is currently active in Butte, Bozeman, and Missoula. This proposal allows the program to expand to sites in rural areas of the state. The request is for 3.00 FTE in fiscal 1998 and 4.00 FTE in fiscal 1999 and related operating expenses.

LFD Issue **- When the Local Citizens Review Board was created by the 1993 legislature it was the objective of the legislation to seek to find a way to either help return the child to their home or to find a permanent caring home for the child with relatives or through adoption. For every child successfully placed, it would result in savings to the state by removing the child from foster care or other state support custodial arrangement. The Local Citizens Review Board is charged with reviewing each case in which a child was removed from their home by the district court and to prepare findings and recommendations with respect to: 1) whether reasonable efforts were made prior to the placement to prevent or to eliminate the need for removal of the child from the home and to make it possible for the child to be returned home; 2) the continuing need for and appropriateness of the placement; 3) compliance with the case plan; 4) the progress that has been made toward alleviating the need for placement; 5) a likely date by which the child may be returned home or placed for adoption; 6) other problems, solutions, or alternatives that the board determines should be explored; and 7) whether the district court should appoint an attorney, guardian, or other person as special advocate to represent or appear on behalf of the child.**

In fiscal 1996 the Judiciary expended $139,000 and had 2.50 FTE to support the Local Review Boards. By expanding to Montana's rural areas, this proposal will more than double the present budget for this purpose. Legislative staff was not able to obtain data to evaluate the success of the program at the time of this review. However, the Judiciary is developing data and will submit a report to the 1997 legislature outlining their accomplishments and what impact it has had upon the foster care placements in the three judicial districts in which they are now operating. The legislature may wish to review this report before acting on this new proposal.

2110 02 **Judiciary** Program Proposed Budget				**Boards and Commissions**				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	2.00	0.00	0.00	2.00	0.00	0.00	2.00	2.00
Personal Services	69,498	(1,234)	0	68,264	(1,234)	0	68,264	136,528
Operating Expenses	140,978	59,954	30,000	230,932	59,968	30,000	230,946	461,878
Equipment	1,955	(430)	0	1,525	(1,955)	0	0	1,525
Total Costs	$212,431	$58,290	$30,000	$300,721	$56,779	$30,000	$299,210	$599,931
General Fund	212,431	58,290	30,000	300,721	56,779	30,000	299,210	599,931
Total Funds	$212,431	$58,290	$30,000	$300,721	$56,779	$30,000	$299,210	$599,931

Program Description

The Boards and Commissions Program oversees functions assigned to the Supreme Court either by legislative or constitutional mandate. The program manages judicial discipline, rules, admissions to the bar, and other substantive matters aimed at improving and maintaining the administration of justice. Commissions and boards included in the program are: the Judicial Standards Commission; Sentence Review Division; Commission on Practice; Board of Bar Examiners; Commission on Courts of Limited Jurisdiction; and the Judicial Nominations Commission.

Funding

The Boards and Commissions Program is funded with general fund. However, a portion of the costs are recovered through deposit of fee revenue from Courts of Limited Jurisdiction (CLJ) training and attorney investigation repayments.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment **- All of the following present law adjustments are general fund. The overall increase to the base budget is 27 percent. Operations (exclusive of personal services and equipment) increases by 42 percent over the base budget.**

2110 02 **Judiciary** **Boards and Commissions**			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(1,234)	(1,234)
02		Inflation Deflation	778	1,066
03		Fixed Costs	(200)	(200)
		Total Statewide Adjustments	($656)	($368)
Significant Present Law Adjustments				
04	91001	Boards And Commissions	9,651	8,126
05	91002	Commission On Practice	22,769	22,769
06	91003	Board Of Bar Examiners	4,239	4,239
07	91004	Courts Of Limited Jurisdiction	7,845	7,571
08	91005	Judicial Standards Commission	14,442	14,442
		Total Significant PL Adjustments	$58,946	$57,147
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$58,290	$56,779

4) Boards and Commissions - The branch is requesting $3,000 each year of the biennium for the Commission on Courts of Limited Jurisdiction (CCOLJ) to modify, update, and publish judge bench books and deskbooks to incorporate state and federal mandates/acts; $2,000 annually for the Commission on Unauthorized Practice and the Commission Concerning Rules of Admission to the Practice Law in Montana to conduct investigations regarding complaints alleging unauthorized practice and to conduct studies regarding rules on admission to the practice of law; additional travel funds for the CCOLJ, the Commission on Unauthorized Practice, and the Commission Concerning Rules of Admission to the Practice of Law; $500 each year for meeting rooms; and $1,525 to purchase in fiscal 1998 a five- drawer locking file cabinet and a secretarial chair. In total this will be an increase of $9,651 in fiscal 1998 and $8,126 in fiscal 1999 over the fiscal 1996 actual of $24,941.

5) Commission on Practice - The number of complaints filed against attorneys has increased significantly, resulting in increased investigation costs. The branch is requesting $20,000 each year of the biennium to cover these investigation costs. In addition they are requesting $20,000 each year to contract for imaging technology to assist the Commission on Practice with paperwork. In total the branch will be increasing their fiscal 1996 actual operating base of $35,787 by $22,769 each year of the biennium.

LFD Issue **- Two years ago, the LFD raised an issue in the 1997 Executive Budget Analysis that the legislature may want to restrict the appropriation for attorney investigations so that the funds could not be diverted elsewhere if the anticipated level of investigations did not materialize. The 1995 legislature appropriated approximately $32,000 per year for the 1997 biennium for attorney investigations, but did not restrict the appropriation. Actual expenditures for attorney investigations for fiscal 1996 were $15,276, or less than half of what was appropriated. However, only $387 in general fund was reverted by this program at the end of fiscal 1996, meaning that over $16,000 of this appropriation was diverted and expended elsewhere in the program budget and now is included as part of the base budget. The Judiciary is now requesting $25,000 per year for the 1999 biennium and is again basing this increase on the justification that increased attorney complaints requires increased expenditures.**

6) Board of Bar Examiners - In total the branch is requesting an additional $4,239 each year of the biennium over the fiscal 1996 actual operating costs of $27,259. This additional funding will support the graders and question writers of the bar exam, board member compensation, stenographic help for disabled persons, NBE grading of the national exam, travel for board members, and meeting room rentals.

7) Courts of Limited Jurisdiction - Training for Courts of Limited Jurisdiction is budgeted from the general fund; however, expenses are limited by the amount collected in fees. Projected collections for fiscal 1998 and fiscal 1999 are $45,000 per year. The adjustments shown on the table of $7,845 in fiscal 1998 and $7,571 in fiscal 1999 will make the annual budgets equal to the projected fee collections.

8) Judicial Standards Commission - The branch is requesting $25,000 per year to contract for investigative services in connection with the complaints filed against judges. Fiscal 1996 actual expenditures were $10,558, resulting in a proposed increase of $14,442 annually. A line item in the general appropriations act is requested for the $25,000 because the commission was established constitutionally and would remain separate.

LFD Issue **- This is a five member commission consisting of two district judges, one attorney, and two citizens who are not attorneys. Historically only $2,000 per year had been appropriated for this commission; however, in fiscal 1996 the commission had an expensive investigation and hearing which resulted in abnormally high expenditures for this function. The Judiciary covered the extra cost by moving funds from elsewhere in the budget. Because the Judiciary is now requesting continued appropriations based upon the abnormally high expenditures, the legislature may wish to restrict the use of this appropriation to this**

purpose.

2110 02
Judiciary **Boards and Commissions**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Montana Judicial Institute		30,000		30,000		30,000		30,000
Total For New Proposals		$30,000		$30,000		$30,000		$30,000

Executive New Proposals

1) Montana Judicial Institute - The purpose of the Montana Judicial Institute (MJI) is to provide court judges with an education program to increase courtroom competency. The Montana Supreme Court Commission on Courts of Limited Jurisdiction worked cooperatively with the University of Montana School of Law to establish a program that develops a broad knowledge base, to enhance judges' abilities to analyze and synthesize legal material, and enables judges to apply standards and theories in the resolution of common issues. MJI was a result of this joint effort and was previously funded by the State Justice Institute. The agency is requesting $30,000 general fund each year of the biennium to continue the educational program.

LFD Issue **- The Montana Judicial Institute (MJI) was initiated in fiscal 1994 for two years using $100,000 of federal funds via the private nonprofit State Justice Institute. The State Justice Institute contracted with the University of Montana Law School to create the MJI for the purpose of creating a judge educational program for the 116 judges in Montana who serve in courts of limited jurisdiction (Justices of the Peace, City Judges, and Municipal Judges). According to the Judiciary, the original funds were seed money to develop a judge education program in Montana and are not available as a continuing funding source. Under this executive proposal the Judiciary would contract with the University of Montana Law School to provide judicial education for 30 judges every two years. While the program being requested here may have merit, the legislature should be concerned when a program is developed outside of the legislative process using private funds and then, once the program is in place and operational, it is submitted to the legislature for approval and funding with general fund.**

2110 03 Judiciary Program Proposed Budget				Law Library				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	6.50	0.00	0.75	7.25	0.00	1.00	7.50	7.25
Personal Services	216,506	8,308	31,423	256,237	8,308	43,019	267,833	524,070
Operating Expenses	84,018	13,786	5,658	103,462	12,786	4,501	101,305	204,767
Equipment	258,437	352	1,600	260,389	352	1,600	260,389	520,778
Total Costs	$558,961	$22,446	$38,681	$620,088	$21,446	$49,120	$629,527	$1,249,615
General Fund	558,961	22,446	38,681	620,088	21,446	49,120	629,527	1,249,615
Total Funds	$558,961	$22,446	$38,681	$620,088	$21,446	$49,120	$629,527	$1,249,615

Program Description

The State Law Library provides access to and teaches customers how to use legal information sources. The Supreme Court, lower courts, the legislature, state officers and employees, members of the bar, and the general public use the library resources. The collection includes legal materials from the federal government and all 50 states, as well as Canada. Access to much of the information is also provided from the library's Internet site.

Funding

The Law Library is funded with general fund. However, a portion of the costs are recovered through fees deposited to the general fund. Fees are charged for copies, faxes, and rental of audio/video cassettes. In fiscal 1996, fee revenue deposited to the general fund totalled $31,161.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

2110 03 Judiciary Law Library			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	8,308	8,308
02		Inflation/Deflation	(742)	(747)
03		Fixed Costs	(500)	(500)
		Total Statewide Adjustments	$7,066	$7,061
Significant Present Law Adjustments				
04	91001	Maintenance Contracts	13,856	13,856
		Total Significant PL Adjustments	$13,856	$13,856
Other Base Adjustments			$1,524	$529
		Grand Total Present Law Adjustments	$22,446	$21,446

4) Maintenance Contracts - In accordance with terms of the purchase agreement for the Horizon integrated library system in fiscal 1995, the branch is required to purchase maintenance and continuing customer support. This will amount to $15,533 per year or an annual increase of $13,856 over fiscal 1996 actual expenditures of $1,677.

Other Base Adjustments - These adjustments include annual increases in book binding costs and in the American Association of Law Libraries and the Montana Library Association dues; rounding of the amount spent in fiscal 1996 for the replacement

of computers; and $1,000 in fiscal 1998 for the replacement of minor equipment and supplies.

2110 03
Judiciary — **Law Library**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Electronic Library Services	0.75	37,081		37,081	1.00	47,520		47,520
02	New Office Equipment		1,600		1,600		1,600		1,600
	Total For New Proposals	0.75	$38,681		$38,681	1.00	$49,120		$49,120

Executive New Proposals

1) Electronic Library Services - This proposal supports a systems law librarian position to be responsible for the development and maintenance of electronic information resources and services. The funding will support personal services costs and additional operating expenses.

LFD Issue **- The legislature may want to direct the law library to report to the 1999 legislature on the feasibility of selling subscriptions (or other means of billing for this service) to the law library's electronic access site as a mechanism for raising revenue to support the cost of providing this service. The use of electronic remote access sites by the public is expected to increase as the technology continues to evolve and as public awareness and ease of access increases. There are over 3,000 attorneys licensed to practice law in the state of Montana. If only half of the practicing attorneys subscribed to the service and assuming an annual subscription fee of $20, it would generate revenue of $30,000 per year. (The appropriate fee would be determined based upon actual cost of the service and the projected number of subscribers.) Subscriptions could be sold to individual attorneys and to law firms based upon the number of attorneys associated with the firm. Once subscribed, each attorney or law firm would be assigned an access code to allow entry to the law library electronic services. The revenues would be deposited either into a state special revenue account to support the law library's electronic access site or as a proprietary enterprise fund if the service were totally self supporting.**

2) New Office Equipment - The branch is requesting $1,600 each year of the biennium to purchase microform cabinets for federal government documents.

2110 04
Judiciary
Program Proposed Budget

District Court Operations

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	37.00	0.00	0.75	37.75	0.00	1.00	38.00	37.75
Personal Services	2,915,059	157,797	26,754	3,099,610	161,905	35,671	3,112,635	6,212,245
Operating Expenses	169,008	20,811	2,500	192,319	16,176	2,500	187,684	380,003
Equipment	6,884	(1,361)	0	5,523	(1,361)	0	5,523	11,046
Total Costs	$3,090,951	$177,247	$29,254	$3,297,452	$176,720	$38,171	$3,305,842	$6,603,294
General Fund	3,090,951	177,247	29,254	3,297,452	176,720	38,171	3,305,842	6,603,294
State/Other Special	0	0	0	0	0	0	0	0
Total Funds	$3,090,951	$177,247	$29,254	$3,297,452	$176,720	$38,171	$3,305,842	$6,603,294

Program Description

The District Court Operations Program funds salaries, travel, and training for Montana's elected district judges. Other operational costs of the district courts are paid by other state agencies and local governments. District courts are general jurisdiction trial courts having original jurisdiction in all criminal felony cases, civil matters, and cases of law.

Funding

District court operations are funded with general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

2110 04
Judiciary
District Court Operations

Present Law Adjustments/Issues

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	152,683	156,791
02		Inflation/Deflation	607	869
03		Fixed Costs	(5,439)	(5,439)
		Total Statewide Adjustments	$147,851	$152,221
Significant Present Law Adjustments				
04	79199	Replacement Equipment	(1,361)	(1,361)
05	91001	Judge Recusal	5,114	5,114
06	91002	District Court Vehicles	10,233	5,336
07	91003	District Judges Deskbook	2,926	2,926
08	91004	Travel	12,484	12,484
		Total Significant PL Adjustments	$29,396	$24,499
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$177,247	$176,720

4) Replacement Equipment - Two computers and two printers are recommended to be replaced each year of the biennium for district court judges. This will amount to $4,800 per year or a decrease of $1,361 each year from actual expenditures in fiscal 1996. The cost of requested software in each year of the biennium equals the $723 expended in fiscal 1996.

5) Judge Recusal - District court judges are subject to recusal, being disqualified or withdrawing from position of judging, requiring retired judges to be assigned to cases. Actual expenditures in fiscal 1996 were $9,886. An increase of $5,114 is requested for a total of $15,000 each year of the biennium.

LFD Comment **- Historical expenditures by the Judiciary for judge recusal are: fiscal 1993, $9,592; fiscal 1994, $9,706; fiscal 1995, $14,871; and fiscal 1996, $9,886. Of the most recent four years, only in fiscal 1995 did the Judiciary expend near the amount requested.**

6) District Court Vehicles - The branch's request will continue the leasing of seven vehicles for judges in high mileage areas. At $390 per month per vehicle, the agency is requesting $32,760 each year of the biennium. The agency is anticipating one-time expenses will be required upon the October 1997 expiration of the current vehicle lease because all leased vehicles must be returned free of any physical damage. Repair and maintenance is projected to be approximately $5,000 in fiscal 1998. The branch is also requesting an increase for gasoline due to increased travel. The total request is $40,920 in fiscal 1998 and $36,023 in fiscal 1999, an increase of $10,233 and $5,336 respectively over fiscal 1996 actuals.

7) District Judges Deskbook - The district court judges deskbook must be updated with changes from the 1995 and 1997 legislative sessions and present case law. An increase of $2,926 each year of the biennium is requested for research, drafting and final preparation, printing, and mailing of the deskbooks.

8) Travel - An increase of $12,484 in fiscal 1998 and fiscal 1999 over fiscal 1996 actual is being recommended. These funds will cover the projected costs due to increased workload and increased participation in the five-state judicial conference.

2110 04
Judiciary **District Court Operations**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Third Judicial District Court, Powell County	0.75	29,254		29,254	1.00	38,171		38,171
	Total For New Proposals	0.75	$29,254		$29,254	1.00	$38,171		$38,171

Executive New Proposals

1) Third Judicial District Court, Powell County - This request provides funding to support a law clerk for the Montana Third Judicial District Court, Powell County, Montana. Montana State Prison (MSP) is located in the Third Judicial District and houses 1,350 inmates. The court bears an inordinate amount of legal actions as a result of the prison. Included are criminal actions which arise at MSP, the prosecution of escapees from both MSP and the pre-release centers throughout the state, and civil rights actions and habeas corpus petitions filed by MSP inmates.

LFD Issue **- If approved as requested the proposal would assign a state employee to the Third Judicial Court in Powell County. If the legislature wishes to assist the district court in handling the many state cases due to the location of MSP in Powell county, it may be more appropriate for the state to provide only the funding and have the court hire a law clerk as an employee of the court. This process could be accomplished outside of the biennial budget process by amending the statutory appropriation included in 3-5-901, MCA, (state assumption of certain district court expenses -- designation as district court criminal reimbursement program) to include cost of a law clerk for the Third District Court. If the legislature chooses this method of assisting the Third Judicial Court, this new proposal should be removed from HB 2.**

2110 05 Judiciary Program Proposed Budget	Water Courts Supervision							
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	11.00	0.00	0.00	11.00	0.00	0.00	11.00	11.00
Personal Services	443,449	25,877	0	469,326	31,988	0	475,437	944,763
Operating Expenses	85,889	9,353	636	95,878	7,824	636	94,349	190,227
Equipment	0	0	5,500	5,500	0	0	0	5,500
Total Costs	$529,338	$35,230	$6,136	$570,704	$39,812	$636	$569,786	$1,140,490
State/Other Special	529,338	35,230	6,136	570,704	39,812	636	569,786	1,140,490
Total Funds	$529,338	$35,230	$6,136	$570,704	$39,812	$636	$569,786	$1,140,490

Program Description

The Water Courts Supervision Program adjudicates claims of existing water rights in Montana and supervises the distribution of water among the four water divisions of the state as defined in 3-7-102, MCA.

Funding

The Water Courts Supervision program is funded with state special revenue funds from the Renewable Resource Grant and Loan account. The main sources of revenue to the Renewable Resource Grant and Loan account are proceeds from the Resource Indemnity and Ground Water Assessment (RIGWA) tax and interest earnings on the Resource Indemnity Tax (RIT) Trust.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

2110 05 Judiciary Water Courts Supervision			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	25,512	31,623
02		Inflation/Deflation	(1,122)	(1,086)
03		Fixed Costs	(500)	(500)
		Total Statewide Adjustments	$23,890	$30,037
Significant Present Law Adjustments				
04	91001	Water Court Vehicles	2,219	2,219
05	91002	Water Rights Adjudication	5,117	3,552
06	91003	Photo And Reproduction	289	289
		Total Significant PL Adjustments	$7,625	$6,060
Other Base Adjustments			$3,715	$3,715
		Grand Total Present Law Adjustments	$35,230	$39,812

4) Water Court Vehicles - The fiscal 1996 base reflected an eight-month vehicle lease. An additional $1,819 will be needed to annualize the cost. In addition, the branch is requesting $1,000 per year, or a $400 increase over the base, for vehicle repair. Two of the court's vehicles will be more than 12 years old in the next biennium.

5) Water Rights Adjudication - The water court is anticipating some increased activities which will have a fiscal impact. The branch is requesting an additional $365 each year of the biennium for support staff overtime. It is likely that there will

be hearings and conferences in several communities such as Hamilton, Great Falls, Red Lodge, Virginia City, or Glasgow. Overtime will be unavoidable.

Subbasins 76HF and 76HG (South West and West Central subbasins of the Bitterroot) will have an Objection List published in fiscal 1998. Cost of newspaper legal advertisements required by statute is estimated to be $540. Preparation of statutory Notice of Objections and Objection Lists for the new Bitterroot decree will require an additional $1,000. Basin 41D (Big Hole River) decree will be issued in fiscal 1998. Costs of Notice of Availability and newspaper legal advertisements required by statute will be about $1,760. This totals to $3,300 in fiscal 1998 or $2,849 over the fiscal 1996 base.

Basin 41D (Big Hole River) will have an Objection List published in fiscal 1999. Cost of newspaper legal advertisements required by statute is estimated to be $540. Preparation of statutory Notice of Objections and Objections Lists for the Big Hole decree will require an additional $1,195. The fiscal 1999 request totals to $1,735 or an increase of $1,284 over the fiscal 1996 actual.

There were six fiscal 1996 active "phone" basins. In fiscal 1998 and fiscal 1999 the active "phone" basins will increase from six to eight. The water court anticipates an annual increase of $2,114 in Department of Administration subscription costs to provide access to the centralized water rights data base system in Helena. This particular cost category will be impacted by a deflation factor, resulting in a net request increase of $1,903 each year of the biennium.

6) Photo and Reproduction - This is an adjusting entry to zero out a negative expenditure total in the fiscal 1996 base.

Other Base Adjustments - Maintenance contracts for IBM computer equipment, a Minolta photocopier, and a Lanier FAX machine currently total $1,181 per year. This is an increase of $313 over the fiscal 1996 base. Rent is anticipated to increase by $3,402 each year of the biennium.

2110 05
Judiciary **Water Courts Supervision**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 New Computer Equipment			6,136	6,136			636	636
Total For New Proposals			$6,136	$6,136			$636	$636

Executive New Proposals

1) New Computer Equipment - This proposal includes $5,000 in fiscal 1998 for a stand alone computer, monitor, modem, tape backup, printer, and scanner to provide the water court with research access and to enter water rights information on the centralized water rights data base system in Helena. An additional $500 in fiscal 1998 would purchase appropriate software. Department of Administration annual data network service charges would be $636.

2110 06 Judiciary Program Proposed Budget				Clerk of Court				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	4.00	0.00	0.00	4.00	0.00	0.00	4.00	4.00
Personal Services	155,931	13,178	0	169,109	14,017	0	169,948	339,057
Operating Expenses	35,221	16,991	0	52,212	15,791	0	51,012	103,224
Equipment	1,176	2,000	4,524	7,700	0	4,524	5,700	13,400
Total Costs	$192,328	$32,169	$4,524	$229,021	$29,808	$4,524	$226,660	$455,681
General Fund	192,328	32,169	4,524	229,021	29,808	4,524	226,660	455,681
Total Funds	$192,328	$32,169	$4,524	$229,021	$29,808	$4,524	$226,660	$455,681

Program Description

The Clerk of Court Program performs support and operational duties for the Supreme Court, as outlined in Title 3, Chapter 2, part 4, MCA. The program keeps the court records and files, issues writs and certificates, approves bonds, files all papers and transcripts, and performs other duties as required.

Funding

The clerk of court is funded with general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

2110 06 Judiciary Clerk of Court			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	13,178	14,017
02		Inflation/Deflation	(111)	(111)
03		Fixed Costs	(260)	(260)
		Total Statewide Adjustments	$12,807	$13,646
Significant Present Law Adjustments				
04	91001	Mediation Program	6,674	6,674
05	91002	Records Management	5,758	6,558
06	91003	Clerk Of Court Operations	4,930	2,930
07	91004	Equipment	2,000	0
		Total Significant PL Adjustments	$19,362	$16,162
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$32,169	$29,808

LFD Comment **- The following present law adjustments are each funded from the general fund. Operating expenses are increased by 48 percent.**

4) Mediation Program - Mandatory appellate alternative dispute resolution procedures became effective on October 1, 1996. Because of this rule change, the clerk of court is anticipating some increased costs in the areas of printing, supplies and materials, and postage. The request is for an additional $6,674 each year of the biennium over the fiscal 1996 base of $16,266.

5) Records Management - The Clerk is requesting an additional $5,758 in fiscal 1998 and $6,558 in fiscal 1999 to transfer docket sheets to microfiche and store the increasing caseload from 1982 forward . Fiscal 1996 actual expenditures amounted

to $4,942.

6) Clerk of Court Operations - There is a total increase of $4,930 in fiscal 1998 and $2,930 in fiscal 1999 over fiscal 1996 actual expenditures. This increase includes $5,400 in fiscal 1998 and $3,400 in fiscal 1999 to replace the 1983 telephone system, add voice mail, and pay increased long-distance charges; $1,570 per year for in-state travel in anticipation of the court holding oral arguments in cities other than Helena; $770 for annual dues to the Montana Clerks of District Courts Association and the National Conference of Appellate Court Clerks; and $1,000 each year for staff training on new computer software.

7) Equipment - $2,000 is requested in fiscal 1998 for replacement of the time-date machine and the FAX machine.

2110 06
Judiciary
Executive Budget New Proposals

Clerk of Court

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Equipment		4,524		4,524		4,524		4,524
Total For New Proposals		$4,524		$4,524		$4,524		$4,524

Executive New Proposals

1) Equipment - The branch is requesting $5,700 each year of the biennium to purchase shelving to accommodate the increased caseload. This is an increase of $4,524 over fiscal 1996 actual expenditures.

2115 00 Agency Proposed Budget				Montana Chiropractic Legal Panel				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Operating Expenses	13,797	203	0	14,000	203	0	14,000	28,000
Total Costs	$13,797	$203	$0	$14,000	$203	$0	$14,000	$28,000
State/Other Special	13,797	203	0	14,000	203	0	14,000	28,000
Total Funds	$13,797	$203	$0	$14,000	$203	$0	$14,000	$28,000

Mission Statement

To review all malpractice claims or potential claims against chiropractic physicians in order to prevent, if possible, filed court actions against chiropractic physicians for professional liability, and to facilitate the fair and equitable disposition of such claims that are reasonably well founded.

Agency Description

The Montana Chiropractic Legal Panel reviews all malpractice claims or potential claims against chiropractic physicians to: a) prevent, when possible, filed court actions against chiropractic physicians for professional liability in situations where the facts do not permit at least a reasonable inference of malpractice; and b) make possible the fair and equitable disposition of such claims against chiropractic physicians that are or reasonably may be well founded (Title 27, Chapter 12 MCA). A panel, consisting of three chiropractic physicians licensed in Montana and three attorneys who are members of the State Bar Association of Montana, is appointed to review each malpractice claim or potential claim. The panel is managed by a director appointed by the executive director of the Montana Chiropractic Association.

2115 00 Montana Chiropractic Legal Panel				Biennium Budget Comparison				
Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE								
Operating Expenses	14,000	0	14,000	14,000	0	14,000	27,797	28,000
Total Costs	$14,000	$0	$14,000	$14,000	$0	$14,000	$27,797	$28,000
State/Other Special	14,000	0	14,000	14,000	0	14,000	27,797	28,000
Total Funds	$14,000	$0	$14,000	$14,000	$0	$14,000	$27,797	$28,000

Funding

The Montana Chiropractic Legal Panel is funded through state special revenue funds derived from annual assessments levied on all chiropractic physicians. The amount of the assessment is annually set by the director and equally assessed against all chiropractic physicians.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies.

Other Base Adjustments - Additional travel authority is recommended to accommodate the director's presence at each hearing. In the current biennium, the director has not attended all hearings to provide guidance and direction to panel members.

2115 01 **Montana Chiropractic Legal Panel** **Legal Panel Operations** Present Law Description		Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	0	0
02	Inflation/Deflation	199	201
03	Fixed Costs	0	0
	Total Statewide Adjustments	$199	$201
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$4	$2
	Grand Total Present Law Adjustments	$203	$203

3101 00 Agency Proposed Budget					Governors Office			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	50.75	0.00	(1.06)	49.69	0.00	(0.75)	50.00	49.69
Personal Services	1,978,885	269,922	(64,170)	2,184,637	274,032	(53,448)	2,199,469	4,384,106
Operating Expenses	787,162	174,984	(9,385)	952,761	139,192	(12,634)	913,720	1,866,481
Equipment	83,335	(8,978)	0	74,357	(12,978)	0	70,357	144,714
Total Costs	$2,849,382	$435,928	($73,555)	$3,211,755	$400,246	($66,082)	$3,183,546	$6,395,301
General Fund	2,540,997	354,659	43,058	2,938,714	309,803	52,050	2,902,850	5,841,564
State/Other Special	171,495	41,226	48,245	260,966	47,153	49,970	268,618	529,584
Federal Special	136,890	40,043	(164,858)	12,075	43,290	(168,102)	12,078	24,153
Total Funds	$2,849,382	$435,928	($73,555)	$3,211,755	$400,246	($66,082)	$3,183,546	$6,395,301

Mission Statement

To oversee and direct the activities of the executive branch of Montana state government, consistent with statutory and constitutional mandates, in a manner that provides necessary and affordable services to the citizens of Montana.

Agency Description

The Office of the Governor exists under authority contained in Article VI of the Montana Constitution. The Governor has constitutional and statutory authority to administer the affairs of the State of Montana, appoint all military and civil officers of the state whose appointments are provided for by statute or the Constitution, approve or veto legislation, report to the legislature on the condition of the state, submit a biennial Executive Budget, grant reprieves and pardons, serve on various boards and commissions as provided by the Constitution and statutes, and represent the state in relations with other governments and the public.

3101 00 Governors Office					Biennium Budget Comparison			
Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	50.75	(1.06)	49.69	50.75	(0.75)	50.00	50.75	49.69
Personal Services	2,248,807	(64,170)	2,184,637	2,252,917	(53,448)	2,199,469	4,257,687	4,384,106
Operating Expenses	962,146	(9,385)	952,761	926,354	(12,634)	913,720	1,616,121	1,866,481
Equipment	74,357	0	74,357	70,357	0	70,357	114,035	144,714
Total Costs	$3,285,310	($73,555)	$3,211,755	$3,249,628	($66,082)	$3,183,546	$5,987,843	$6,395,301
General Fund	2,895,656	43,058	2,938,714	2,850,800	52,050	2,902,850	5,268,100	5,841,564
State/Other Special	212,721	48,245	260,966	218,648	49,970	268,618	390,245	529,584
Federal Special	176,933	(164,858)	12,075	180,180	(168,102)	12,078	329,498	24,153
Total Funds	$3,285,310	($73,555)	$3,211,755	$3,249,628	($66,082)	$3,183,546	$5,987,843	$6,395,301

3101 01
Governors Office — **Executive Office Program**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	19.25	0.00	0.19	19.44	0.00	0.25	19.50	19.44
Personal Services	777,674	134,379	5,468	917,521	135,034	7,193	919,901	1,837,422
Operating Expenses	301,602	81,276	42,777	425,655	75,545	42,777	419,924	845,579
Equipment	41,984	(8,951)	0	33,033	(6,951)	0	35,033	68,066
Total Costs	$1,121,260	$206,704	$48,245	$1,376,209	$203,628	$49,970	$1,374,858	$2,751,067
General Fund	989,765	141,478	0	1,131,243	133,475	0	1,123,240	2,254,483
State/Other Special	131,495	65,226	48,245	244,966	70,153	49,970	251,618	496,584
Federal Special	0	0	0	0	0	0	0	0
Total Funds	$1,121,260	$206,704	$48,245	$1,376,209	$203,628	$49,970	$1,374,858	$2,751,067

Program Description

The Executive Office supports the Governor in overseeing and coordinating activities of the executive branch of Montana state government. The office provides administrative, legal, press, and central services support for the Office of the Governor, as well as executive administration of programs with special impact on the citizens and governmental concerns of Montana. Special programs include preserving clean water in the Flathead Basin and oversight of the Montana Consensus Council.

The Montana Constitution establishes the Governor as the chief executive officer of the state. The Flathead Basin Commission is part of the Executive Office program and exists as a state statutory mandate.

Funding

Over 81 percent of general program operations are funded by the general fund. State special revenue accounts fund the remainder of the program. Sources of state special revenue include the following: 1) $15,000 per year of indirect cost reimbursement from federal sources used to offset some of the personal services costs of Central Services, 2) $54,250 each year in grants, gifts, and donations from private sources and from local governments for the Flathead Basin Commission, 3) $41,756 in fiscal 1998 and $46,754 in fiscal 1999 of RIT renewable resources grants and loans for the Flathead Basin Commission, and 4) $133,963 in fiscal 1998 and $135,614 in fiscal 1999 that the Montana Consensus Council receives as grants from private sources and as fees the Council charges for services.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

3101 01 Governors Office Executive Office Program			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	134,379	135,034
02		Inflation/Deflation	(1,848)	(2,397)
03		Fixed Costs	29,484	6,702
		Total Statewide Adjustments	$162,015	$139,339
Significant Present Law Adjustments				
04	79199	Dp Equipment	0	0
05	91002	Equipment	(8,951)	(6,951)
06	91003	Flathead Basin Commission Contracts	35,584	40,584
07	91004	Consensus Council Contracts	15,948	15,948
		Total Significant PL Adjustments	$42,581	$49,581
Other Base Adjustments			$2,108	$14,708
		Grand Total Present Law Adjustments	$206,704	$203,628

1) Personal Services - The table reflects annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. Two positions were vacant during most of fiscal 1996.

LFD Issue **- The proposed budget includes a salary increase from $26,000 per year to $58,207 per year for a 1.0 FTE exempt personal staff position that has been vacant for over a year. Before granting full funding and a pay raise for a vacant personal staff position, the legislature may want to ascertain whether the Governor's office will fill this position by the beginning of the 1999 biennium.**

2) Inflation/Deflation - Decreased costs are primarily in the area of telephone service.

3) Fixed Costs - Costs of rent and computer network charges which will increase more than $11,000 in fiscal 1998 and $12,000 in fiscal 1999 explain most of this adjustment. Audit charges increase from $6,208 in fiscal 1996 to $24,702 in fiscal 1998 and then fall to $0 in fiscal 1999 because the audit is a biennial appropriation.

5) Equipment - These amounts reflect the decrease from fiscal 1996 equipment expenditures of $41,984. The fiscal 1998 amount includes $18,000 for computers and $15,033 for office equipment and the fiscal 1999 amount includes $20,000 for computers and $15,033 for office equipment.

6) Flathead Basin Commission Contracts - This recommendation represents authority to expend funds which are typically received in support of the Commission mission from a variety of sources including Montana Power Company, EPA, Bonneville Power Administration, Flathead County, and others. Funding is state special revenue.

LFD Issue **- The $40,584 of state special revenue requested for fiscal 1999 includes $5,000 from the RIT trust fund. This $5,000 would augment the more than $40,000 per year the Flathead Basin Commission already receives from the RIT trust fund. Since general fund subsidizes other programs using RIT and since the commission anticipates receiving a sizable amount of state special revenue from sources other than RIT funds, the legislature could not approve the increase in RIT funding and direct the commission to use other state special revenue funds instead.**

7) Consensus Council Contracts - This proposal provides authority to expend funds which may be received in support of the council mission. Funding is state special revenue.

LFD Issue **- The Consensus Council spent $65,899 of general fund money in the base year, and is requesting the same amount in each year of the 1999 biennium. Since the council anticipates receiving an increasing amount of state special revenue from private and local government sources in the coming biennium, the legislature may wish to substitute state special revenue funds for general fund.**

Other Base Adjustments - This is primarily the result of $10,000 budgeted in fiscal 1999 for contracted legal review of legislation and rules during the session year and $3,000 and $4,000 in fiscal 1998 and 1999, respectively, for increased costs of photo development.

3101 01
Governors Office — **Executive Office Program**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Consensus Council Ssr	0.19		48,245	48,245	0.25		49,970	49,970
Total For New Proposals	0.19		$48,245	$48,245	0.25		$49,970	$49,970

Executive New Proposals

1) Consensus Council SSR - This recommendation is to establish state special authority to expend fees collected from agencies and local governments that use the services of the Consensus Council. Funds will be used to pay for the expanded work load which generates the additional fees. Because of increasing demands for services, it is also recommended that an existing 0.75 FTE project support staff be expanded by 0.25 FTE to create a permanent, full-time position by the end of the biennium.

LFD Comment **- The funds are to come from private sources and will be used to continue the council's efforts to help various parties build agreement on land use, water rights, and zoning issues. The Consensus Council has tentative agreements with private interests and grant providers.**

LFD Issue **- The 1995 legislature granted the Consensus Council $50,000 per year in state special revenue spending authority. Though the council generated revenue beyond its state special revenue authority, rather than use this extra money to reduce its general fund expenditures, the council sought and received a transfer of spending authority for $15,235 from the Department of Environmental Quality environmental quality protection fund. The council is now requesting a significant increase in its state special revenue spending authority. The legislature may wish to direct the council to use funds in excess of its state special revenue spending authority to reduce its reliance on the general fund.**

3101 02 Governors Office Program Proposed Budget	Mansion Maintenance Program							
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	1.50	0.00	0.00	1.50	0.00	0.00	1.50	1.50
Personal Services	36,560	(109)	0	36,451	(369)	0	36,191	72,642
Operating Expenses	41,287	432	0	41,719	621	0	41,908	83,627
Equipment	11,138	(11,138)	0	0	(9,138)	0	2,000	2,000
Total Costs	$88,985	($10,815)	$0	$78,170	($8,886)	$0	$80,099	$158,269
General Fund	88,985	(10,815)	0	78,170	(8,886)	0	80,099	158,269
Total Funds	$88,985	($10,815)	$0	$78,170	($8,886)	$0	$80,099	$158,269

Program Description

The Mansion Maintenance Program is responsible for maintenance of the Governor's official residence. The program exists solely to maintain the residence of the chief executive and is a discretionary function.

Funding

The program is funded entirely by the general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5) Equipment - These amounts reflect the decrease from fiscal 1996 equipment expenditures of $11,138. The budget includes $2,000 for a computer in fiscal 1999.

3101 02 Governors Office Mansion Maintenance Program			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(109)	(369)
02		Inflation/Deflation	518	703
03		Fixed Costs	(86)	(82)
		Total Statewide Adjustments	$323	$252
Significant Present Law Adjustments				
04	79199	Dp Equipment	0	0
05	91001	Equipment	(11,138)	(9,138)
		Total Significant PL Adjustments	($11,138)	($9,138)
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	($10,815)	($8,886)

3101 03 Governors Office Program Proposed Budget	Air Transportation Program							
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	1.00	0.00	0.00	1.00	0.00	0.00	1.00	1.00
Personal Services	37,648	(2,943)	0	34,705	(2,953)	0	34,695	69,400
Operating Expenses	104,190	1,593	0	105,783	6,401	0	110,591	216,374
Equipment	2,645	(3,290)	0	(645)	(3,290)	0	(645)	(1,290)
Total Costs	$144,483	($4,640)	$0	$139,843	$158	$0	$144,641	$284,484
General Fund	129,483	(5,640)	0	123,843	(1,842)	0	127,641	251,484
State/Other Special	15,000	1,000	0	16,000	2,000	0	17,000	33,000
Total Funds	$144,483	($4,640)	$0	$139,843	$158	$0	$144,641	$284,484

Program Description

The Air Transportation Program is responsible for providing the Governor with safe and reliable air transportation. The program exists to operate and maintain the safety of the Governor's assigned aircraft and is a discretionary function.

Funding

The program is funded by the general fund except for state special revenue funds of $16,000 in fiscal 1998 and $17,000 in fiscal 1999 that will come from renting the Governor's aircraft to other state agencies.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

3101 03 Governors Office Air Transportation Program			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(2,943)	(2,953)
02		Inflation/Deflation	2,279	3,889
03		Fixed Costs	140	143
		Total Statewide Adjustments	($524)	$1,079
Significant Present Law Adjustments				
04	79199	Dp Equipment	0	0
05	91002	Equipment	(645)	(645)
		Total Significant PL Adjustments	($645)	($645)
Other Base Adjustments			($3,471)	($276)
		Grand Total Present Law Adjustments	($4,640)	$158

1) Personal Services - The table reflects annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate.

2) Inflation/Deflation - Increased cost of gasoline is the primary factor.

5) Equipment - These amounts reflect the decrease from fiscal 1996 equipment expenditures of $2,645. The budget includes $2,000 for the purchase of a computer each year of the biennium.

LFD Issue **- The actual total biennium equipment request is a negative $1,290 (see the amount for equipment in the total 'Executive Budget Fiscal 98-99' column in the Program Proposed Budget table) . If the legislature wishes to appropriate $2,000 as requested, it should add $2,645 each fiscal year to the budget request for equipment.**

Other Base Adjustments - This is due primarily to the estimated cost of aircraft maintenance.

3101 04
Governors Office
Program Proposed Budget

Office of Budget & Program Planning

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	17.00	0.00	0.75	17.75	0.00	1.00	18.00	17.75
Personal Services	712,323	45,037	26,988	784,348	47,998	35,981	796,302	1,580,650
Operating Expenses	196,082	58,852	0	254,934	11,501	0	207,583	462,517
Equipment	17,250	7,009	0	24,259	5,009	0	22,259	46,518
Total Costs	$925,655	$110,898	$26,988	$1,063,541	$64,508	$35,981	$1,026,144	$2,089,685
General Fund	900,655	135,898	26,988	1,063,541	89,508	35,981	1,026,144	2,089,685
State/Other Special	25,000	(25,000)	0	0	(25,000)	0	0	0
Total Funds	$925,655	$110,898	$26,988	$1,063,541	$64,508	$35,981	$1,026,144	$2,089,685

Program Description

The Office of Budget and Program Planning (OBPP) assists the Governor in the preparation of the Governor's Executive Budget and administration of the state government budget. In addition, the OBPP prepares and monitors revenue estimates and collections, prepares and publishes fiscal notes on proposed legislation and initiatives, and acts as approving authority for operational plan changes, program transfers, and budget amendments in the executive branch. The OBPP acts as the lead executive branch agency for compliance with the federal Single Audit Act.

The OBPP exists as a result of several state mandates. For example, 17-7-101 through 17-7-132, MCA, states that the Governor shall appoint a budget director who may employ such other personnel as necessary to comply with the prescribed form, content, and timelines for budget development, the pay plan proposal, and submission of the budget to the legislature.

Funding

This program is funded entirely by the general fund. A portion of the program is supported through the Statewide Cost Allocation Plan (SWCAP) and the State Fund Cost Allocation Plan (SFCAP), which assess other state agencies for services that OBPP provides. Funds received from these assessments of federal and non-general fund state funds are deposited into the general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies.

3101 04
Governors Office
Office of Budget & Program Planning

Present Law Adjustments/Issues

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	45,037	47,998
02		Inflation/Deflation	(4,266)	(5,627)
03		Fixed Costs	11,118	(2,362)
		Total Statewide Adjustments	$51,889	$40,009
Significant Present Law Adjustments				
05	91002	Equipment	7,009	5,009
06	91003	Student Intern	4,000	4,000
07	91004	1999 Session Costs	0	17,490
08	91005	Budget System Development	40,000	(10,000)
		Total Significant PL Adjustments	$51,009	$16,499
Other Base Adjustments			$8,000	$8,000
		Grand Total Present Law Adjustments	$110,898	$64,508

The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - The table reflects annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate.

2) Inflation/Deflation - Decreased costs of telephone service and computer processing are primary factors.

3) Fixed Costs - Costs of rent and computer network charges which increase by $7,561 in fiscal 1998 and $8,674 in fiscal 1999 explain most of this adjustment. Audit charges rise from $10,399 spent in fiscal 1996 to $14,632 in fiscal 1998 and then fall to $0 in fiscal 1999 because the audit is a biennial appropriation.

5) Equipment - These amounts reflect the increase from fiscal 1996 equipment expenditures of $17,250. The budget includes $22,000 for computers and $2,259 for office equipment in fiscal 1998, with $20,000 for computers and $2,259 for office equipment in fiscal 1999.

6) Student Intern - The budget provides $4,000 per year to allow one student intern.

7) 1999 Session Costs - The budget includes additional costs of printing and computer processing incurred during a legislative session.

8) Budget System Development - This recommendation provides for the continuing cost of development of the automated budget system and related automatic reports and processes. Fiscal 1996 expenditures were $50,000; fiscal 1998 is anticipated to be $90,000 and fiscal 1999 is projected at $40,000.

***LFD Comment* - The Montana Integrated Budget System was developed in 1996 by a joint project of the Governor's Office and the Legislative Branch. Funding in this request will be for enhancements and modifications to the system required to meet changing budget process requirements and to make the system fully integrated with other systems. Additionally, it will fund ongoing costs for a maintenance contract for the system, to be shared with the Legislative Branch (funding for the legislative branch share is included in that budget). The costs included in this request are for maintenance and improvements to the existing system. The information bonding proposal includes $500,000 for development costs associated with additional phases of the system.**

Other Base Adjustments - This is primarily the result of the $4,000 increase in cost of the Wharton Econometric forecasting service which provides economic data and projections used in revenue forecasting and budget development.

***LFD Comment* - The Wharton Econometric forecasting service is paid from this program but the service is shared with the Legislative Fiscal Division and the Bureau of Business and Economic Research. The annual fee for this service was placed in a restricted appropriation for the 1997 biennium.**

3101 04
Governors Office | **Office of Budget & Program Planning**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Analyst Fte	0.75	26,988		26,988	1.00	35,981		35,981
Total For New Proposals	0.75	$26,988		$26,988	1.00	$35,981		$35,981

Executive New Proposals

1) Analyst FTE - The Executive Budget provides funding to add 1.00 FTE budget analyst, grade 16, who is needed to work with the increasing complexity of budget issues and added requirements placed on the budget office for agency performance monitoring and preparation of reports.

3101 05 **Governors Office** Program Proposed Budget				**Indian Affairs**				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	2.00	0.00	0.00	2.00	0.00	0.00	2.00	2.00
Personal Services	40,503	37,987	0	78,490	37,983	0	78,486	156,976
Operating Expenses	15,725	8,478	0	24,203	8,696	0	24,421	48,624
Equipment	0	6,000	0	6,000	0	0	0	6,000
Total Costs	$56,228	$52,465	$0	$108,693	$46,679	$0	$102,907	$211,600
General Fund	56,228	52,465	0	108,693	46,679	0	102,907	211,600
Total Funds	$56,228	$52,465	$0	$108,693	$46,679	$0	$102,907	$211,600

Program Description

The Coordinator of Indian Affairs Program serves as the Governor's liaison with state Indian tribes, provides information and policy support on issues confronting the Indians of Montana, and advises and makes recommendations on these issues to the legislative and executive branches. The coordinator also serves the Montana congressional delegation as an advisor and intermediary in the field of Indian affairs and acts as spokesperson for representative Native American organizations and groups, both public and private, whenever that support is requested. As a result of the passage of SB 4 by the 1995 legislature, this program was transferred officially from the Department of Commerce to the Governor's Office.

The Coordinator of Indian Affairs Program is mandated by 2-15-217, MCA, and 90-11-101, MCA, which sets forth the duties of the office.

Funding

This program is funded entirely by the general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - The table reflects annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. In fiscal 1996 the coordinator position was vacant much of the year.

3101 05 **Governors Office** **Indian Affairs**			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	37,987	37,983
02		Inflation/Deflation	(401)	(419)
03		Fixed Costs	2,122	2,358
		Total Statewide Adjustments	$39,708	$39,922
Significant Present Law Adjustments				
04	79199	Dp Equipment	6,000	0
		Total Significant PL Adjustments	$6,000	$0
Other Base Adjustments			$6,757	$6,757
		Grand Total Present Law Adjustments	$52,465	$46,679

3) Fixed Costs - This represents increased costs of rent and computer network charges.

4) Equipment - The budget includes $6,000 for computers in fiscal 1998 to enable the program to meet minimum state standards.

Other Base Adjustments - Increased travel funds are budgeted because the coordinator position was vacant much of fiscal 1996 and the expenses do not appear in the base.

3101 12 Governors Office Program Proposed Budget					Lieutenant Governor			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	4.00	0.00	(1.00)	3.00	0.00	(1.00)	3.00	3.00
Personal Services	187,391	14,494	(63,436)	138,449	14,487	(63,433)	138,445	276,894
Operating Expenses	69,839	27,222	(48,715)	48,346	30,314	(51,964)	48,189	96,535
Equipment	8,323	(1,520)	0	6,803	(7,520)	0	803	7,606
Total Costs	$265,553	$40,196	($112,151)	$193,598	$37,281	($115,397)	$187,437	$381,035
General Fund	167,408	29,026	0	196,434	22,862	0	190,270	386,704
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	98,145	11,170	(112,151)	(2,836)	14,419	(115,397)	(2,833)	(5,669)
Total Funds	$265,553	$40,196	($112,151)	$193,598	$37,281	($115,397)	$187,437	$381,035

Program Description

The Office of the Lieutenant Governor is responsible for performing duties provided by law as well as those delegated to the lieutenant governor by the Governor as authorized in Article VI, Section 4 of the Montana Constitution. In June, 1994, administration of the Montana Rural Development Program (MRDP) was transferred to the Lieutenant Governor's office. Federal grant funds received from the Farmers' Home Administration support this function.

State mandates for the creation of the Office of the Lieutenant Governor and the powers and duties of the Lieutenant Governor are contained in 2-15-301 and 302, MCA.

Funding

The functions of the Lieutenant Governor's Office, other than administration of the Montana Rural Development Partnership (MRDP), are funded by the general fund. The MRDP is funded with federal grant funds. The executive proposes eliminating the MRDP.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - The table reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate.

3101 12 Governors Office Lieutenant Governor			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	14,494	14,487
02		Inflation/Deflation	1,243	799
03		Fixed Costs	(912)	(625)
		Total Statewide Adjustments	$14,825	$14,661
Significant Present Law Adjustments				
05	91002	Equipment	6,803	803
		Total Significant PL Adjustments	$6,803	$803
Other Base Adjustments			$18,568	$21,817
		Grand Total Present Law Adjustments	$40,196	$37,281

LFD Comment **- The executive requests the elimination of 1.0 FTE and associated personal services costs of $63,436 in fiscal 1998 and $63,433 in fiscal 1999. (See the new proposals section.) Taking this into account, the increase in the personal services costs of the remaining 3.0 FTE is 12 percent each fiscal year over the cost of those 3.0 FTE in the base year. This bulk of this increase is because the lieutenant governor's salary increases from $43,242 per year to $53,407 year as required by 2-16-405, MCA, which sets the salaries of some elected state officials at the average of the salaries of comparable state officials in states neighboring Montana.**

5) Equipment - These amounts reflect the increase from the fiscal 1996 equipment expenditures of $5,654. The fiscal 1998 amount includes $8,000 for computers and $1,630 for office equipment and the fiscal 1999 amount includes $2,000 for computers and $1,630 for office equipment.

LFD Comment **- Actual fiscal 1996 expenditures on equipment were $8,323, comprised of $5,496 of equipment expenditures funded by the general fund and $2,827 of equipment expenditures funded by federal grant money. As indicated in the explanation of the equipment request, the executive proposes a total of $9,630 in fiscal 1998 for equipment and for a total of $3,630 for equipment in fiscal 1999. The actual budget request is $6,803 in fiscal 1998 and $803 in fiscal 1999. If it is the intent of the legislature to appropriate the requested amount, it should add $2,827 for equipment in each year of the biennium.**

Other Base Adjustments - This adjustment primarily represents increased budget for travel and communications as the fiscal 1996 expenditures were below normal and the previously budgeted amount.

3101 12
Governors Office — **Lieutenant Governor**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Montana Rdp Funding Reduction	(1.00)		(112,151)	(112,151)	(1.00)		(115,397)	(115,397)
	Total For New Proposals	(1.00)		($112,151)	($112,151)	(1.00)		($115,397)	($115,397)

Executive New Proposals

1) Montana Rural Development Program Funding Reduction - This program will not be administered by the Lieutenant Governor after July 1, 1997, so the 1.00 FTE and associated costs are eliminated.

LFD Issue **- The executive intended asking for an elimination of its federal special revenue funds appropriation for this program. The actual request for federal special revenue funds is a negative $2,836 in fiscal 1998 and negative $2,833 in fiscal 1999 (see the Program Proposed Budget table). The legislature should add $2,836 to the appropriation request in fiscal 1998 and $2,833 in fiscal 1999 to eliminate these federal funds.**

3101 16 **Governors Office** Program Proposed Budget Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				CitizensÆ Advocate Office				
FTE	1.50	0.00	0.00	1.50	0.00	0.00	1.50	1.50
Personal Services	58,766	685	0	59,451	682	0	59,448	118,899
Operating Expenses	13,352	(388)	0	12,964	(384)	0	12,968	25,932
Equipment	0	0	0	0	4,000	0	4,000	4,000
Total Costs	.$72,118	$297	$0	$72,415	$4,298	$0	$76,416	$148,831
General Fund	56,866	549	0	57,415	4,550	0	61,416	118,831
Federal Special	15,252	(252)	0	15,000	(252)	0	15,000	30,000
Total Funds	$72,118	$297	$0	$72,415	$4,298	$0	$76,416	$148,831

Program Description

The Citizens' Advocate Office exists to provide accessibility to state government for Montana citizens. The office provides information to citizens and functions as a referral service for public comments, suggestions, and requests for information. A toll-free number is provided to the public for this purpose. The program is a discretionary function.

Funding

The Citizens' Advocate Office is funded by the general fund and by $15,000 of federal funds in each year of the 1999 biennium. The federal funds are reimbursements for services the office provides on behalf of the Department of Public Health and Human Services.

3101 16 **Governors Office** Performance Based Budget Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				CitizensÆ Advocate Office				
FTE	1.50	0.00	0.00	1.50	0.00	0.00	1.50	1.50
Performance Based	72,118	297	0	72,415	4,298	0	76,416	148,831
Total Costs	$72,118	$297	$0	$72,415	$4,298	$0	$76,416	$148,831
General Fund	56,866	549	0	57,415	4,550	0	61,416	118,831
Federal Special	15,252	(252)	0	15,000	(252)	0	15,000	30,000
Total Funds	$72,118	$297	$0	$72,415	$4,298	$0	$76,416	$148,831

Performance-Based Budget

The office is one of sixteen state programs participating in a performance-based budgeting (PBB) pilot program. The Executive budget proposes the following HB 2 language:

"The appropriation provided for the citizens' advocate office is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The agency shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

The program goal and two performance targets are presented below.

GOAL	PERFORMANCE TARGET
The goal of the Citizens' Advocate Office is to provide accessibility to state government for Montana citizens. A toll-free number is provided to the public for this purpose	The office staff answer incoming phone calls, the volume of which is beyond the control of the office. However, by maintaining efficiency in answering the toll-free calls, the office will continue to answer at least 25,000 phone calls per year.
	Through increased efficiency, the Citizens' Advocate Office staff will decrease the number of busy signals received by incoming callers, which is currently at about 35 percent. The performance target is to reduce the number of busy signals received to 25 percent.

LFD Issue **- The objective of performance-based budgeting is to tie changes in the amount of money a program receives to measurable changes in program performance. In this way, should budget makers want to change performance levels, they can know what such changes will cost and adjust future budgets accordingly. The Citizens' Advocate Office performance target gives no indication of how changes in budget levels would affect performance results and makes no attempt to tie results to funding amounts. The performance target gives the legislature no viable way to determine how to adjust the program budget.**

Executive Present Law

3101 16 Governors Office Citizens Advocate Office		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	685	682
02	Inflation/Deflation	(1,403)	(1,403)
03	Fixed Costs	1,015	1,019
	Total Statewide Adjustments	$297	$298
Significant Present Law Adjustments			
04	79199 Dp Equipment	0	4,000
	Total Significant PL Adjustments	$0	$4,000
Other Base Adjustments		$0	$0
	Grand Total Present Law Adjustments	$297	$4,298

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Equipment - The fiscal 1999 amount includes $4,000 for computers to enable the program to meet minimum state standards.

LFD Comment **- The Information Technology Advisory Committee (ITAC) identified "minimum state standards" for state computer equipment so that as agencies replaced equipment, they would all purchase the minimum level of technology necessary to run statewide computer programs**

efficiently. Though state agencies never adopted the "minimum state standards" program officially, some programs are requesting new equipment to meet the identified minimum standards.

3101 20 Governors Office Program Proposed Budget					Mental Disabilities Board of Visitors			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	4.50	0.00	(1.00)	3.50	0.00	(1.00)	3.50	3.50
Personal Services	128,020	40,392	(33,190)	135,222	41,170	(33,189)	136,001	271,223
Operating Expenses	45,085	(2,481)	(3,447)	39,157	6,498	(3,447)	48,136	87,293
Equipment	1,995	2,912	0	4,907	4,912	0	6,907	11,814
Total Costs	$175,100	$40,823	($36,637)	$179,286	$52,580	($36,636)	$191,044	$370,330
General Fund	151,607	11,698	16,070	179,375	23,457	16,069	191,133	370,508
Federal Special	23,493	29,125	(52,707)	(89)	29,123	(52,705)	(89)	(178)
Total Funds	$175,100	$40,823	($36,637)	$179,286	$52,580	($36,636)	$191,044	$370,330

Program Description

The Mental Disabilities Board of Visitors, established by the 1975 legislature, is charged with reviewing patient care at Montana community mental health centers, and at institutions for the mentally ill and the developmentally disabled. The board also provides legal services for the residents at those institutions. The board consists of five members appointed by the Governor. They include, but are not limited to, consumers, doctors of medicine, and behavioral scientists. The board employs administrative and legal staff and contracts with medical professionals to carry out its responsibilities for patient representation and facility review.

The Mental Disabilities Board of Visitors Program was created by the Developmental Disabilities Act of 1975 and the Mental Commitment and Treatment Act of 1975 and exists as a state mandate.

Funding

This program is funded entirely by the general fund. The program received federal funds in the 1997 biennium through the Montana Advocacy Program to provide legal protection and advocacy for patients in Montana's institutions for the mentally ill and developmentally disabled. The executive requests that these federal funds be deleted from the program in the 1999 biennium.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - The table reflects annualization of the pay increases authorized in

3101 20 Governors Office Mental Disabilities Board of Visitors			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	40,392	41,170
02		Inflation/Deflation	235	55
03		Fixed Costs	872	972
		Total Statewide Adjustments	$41,499	$42,197
Significant Present Law Adjustments				
05	91002	Equipment	2,912	4,912
		Total Significant PL Adjustments	$2,912	$4,912
Other Base Adjustments			($3,588)	$5,471
		Grand Total Present Law Adjustments	$40,823	$52,580

the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. Two positions were vacant for part of fiscal 1996, accounting for the large increase from actual fiscal 1996 to fiscal 1998 and 1999. One position is proposed for elimination in the new proposal.

4) Equipment - These amounts reflect the increase from the fiscal 1996 equipment expenditures of $1,995. The fiscal 1998 amount includes $4,000 for computers and $907 for office equipment and the fiscal 1999 amount includes $6,000 for computers and $907 for office equipment to enable the program to meet the minimum state standards.

LFD Comment - **Please see the comments in the New Proposals section of the Citizens' Advocate Office for a discussion of minimum state standards.**

Other Base Adjustments - This is primarily the result of increases in travel offset by reduced cost for consultants used in institutional reviews.

3101 20
Governors Office **Mental Disabilities Board of Visitors**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Board Of Visitors Fed Funds Ch	(1.50)		(52,707)	(52,707)	(1.50)		(52,705)	(52,705)
02 Paralegal Funding Switch	0.50	16,070		16,070	0.50	16,069		16,069
Total For New Proposals	(1.00)	$16,070	($52,707)	($36,637)	(1.00)	$16,069	($52,705)	($36,636)

Executive New Proposals

1) Board of Visitors Federal Funds Change - One attorney position has been deleted from the Board of Visitors Warm Springs Office because of a change in federal funding. A significant portion of the attorney's duties has been assigned to a paralegal position which has been funded with the federal money. The executive requests the federal funds be deleted in total from the budget and the 1.00 FTE attorney supported with federal funds be eliminated. The remaining 0.50 FTE paralegal under this program is to be funded as requested in the new proposal below.

2) Paralegal Funding Switch - This recommendation represents the change from federal funds to general fund for a 0.50 FTE paralegal. A paralegal is required to continue the program. See the above proposal.

LFD Comment - **The Board of Visitors received the federal funds to pay for the 1.0 FTE attorney position and the 0.5 FTE paralegal position through the Montana Advocacy Program, a private group that seeks to provide legal protection and advocacy for patients in Montana's institutions for the mentally ill and developmentally disabled. The attorney position has been vacant since the start of fiscal 1996, so the program used only $23,493 in federal funds that year. The Board has decided to end its association with the Montana Advocacy Program and will no longer receive federal funds through that source. Because the Board wants to retain the paralegal, the executive requests $16,070 of general fund to pay personal services costs.**

The executive meant to ask for a reduction in federal special revenue funds of $52,618 in fiscal 1998 and a reduction of $52,616 in fiscal 1999. The actual request is for a reduction of $52,707 in fiscal 1998 and a reduction of $52,705 in fiscal 1999, so the requested federal funds appropriation is for negative $178. To

correct the negative appropriation, the legislature should add $89 each year to the appropriation request.

3201 00

Secretary of States Office — **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE								
Personal Services	0	0	0	0	0	0	20,980	0
Operating Expenses	0	0	0	0	0	0	17,266	0
Total Costs	$0	$0	$0	$0	$0	$0	$38,246	$0
General Fund	0	0	0	0	0	0	38,246	0
Total Funds	$0	$0	$0	$0	$0	$0	$38,246	$0

Agency Description

The Secretary of State's Office is entirely funded with proprietary funds in the 1999 biennium. Because these funds are no longer appropriated by the legislature, no funding for this agency appears in HB 2. Discussion of this agency and its related funding are included in the section entitled "Properietary Rate Setting and State Fund".

3202 00

Agency Proposed Budget

Commissioner of Political Practices

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	7.25	0.00	(1.00)	6.25	0.00	(1.00)	6.25	6.25
Personal Services	165,751	43,219	(37,022)	171,948	47,717	(37,137)	176,331	348,279
Operating Expenses	106,709	3,634	(6,271)	104,072	(1,146)	(6,489)	99,074	203,146
Equipment	4,296	(4,296)	0	0	(4,296)	0	0	0
Total Costs	$276,756	$42,557	($43,293)	$276,020	$42,275	($43,626)	$275,405	$551,425
General Fund	276,756	42,557	(43,293)	276,020	42,275	(43,626)	275,405	551,425
Total Funds	$276,756	$42,557	($43,293)	$276,020	$42,275	($43,626)	$275,405	$551,425

Mission Statement

To monitor and to enforce, in a fair and impartial manner, campaign practices and campaign finance disclosure, lobbying disclosure, business interest disclosure of statewide and state district candidates, elected state officials and state department directors, ethical standards of conduct for legislators, public officers and state employees and to investigate legitimate complaints that arise concerning any of the above.

Agency Description

The Commissioner of Political Practices is provided for in 13-37-102, MCA, which was enacted in 1975 as part of a campaign finance and practice law reform package, with duties and responsibilities set forth in Title 13, Chapter 37, (1), MCA. Additional responsibilities for the office were created through passage of an initiative in 1980 that provided for both lobbying disclosure and disclosure of business interests of elected officials. In 1995, the legislature enacted the code of ethics (Title 1, Chapter 2, MCA) and assigned to the Commissioner the responsibility for administering ethical standards of conduct for legislators, public officers and state employees.

3202 00

Commissioner of Political Practices

Biennium Budget Comparison

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	7.25	(1.00)	6.25	7.25	(1.00)	6.25	7.25	6.25
Personal Services	208,970	(37,022)	171,948	213,468	(37,137)	176,331	393,577	348,279
Operating Expenses	110,343	(6,271)	104,072	105,563	(6,489)	99,074	230,899	203,146
Equipment	0	0	0	0	0	0	4,296	0
Total Costs	$319,313	($43,293)	$276,020	$319,031	($43,626)	$275,405	$628,772	$551,425
General Fund	319,313	(43,293)	276,020	319,031	(43,626)	275,405	628,772	551,425
Total Funds	$319,313	($43,293)	$276,020	$319,031	($43,626)	$275,405	$628,772	$551,425

Funding

Funding for this agency is general fund.

The agency is required to charge a fee commensurate with costs for printing and distributing the campaign finance report. Revenue from the report sale is deposited to the general fund and totaled $2,498 in fiscal 1996. In the odd year of the biennium, lobbyists must register with the Commissioner and pay a filing fee of $50. This revenue and any copy fees are deposited in the general fund.

3202 01 Commissioner of Political Practices Administration			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	43,219	43,351
02		Inflation/Deflation	(237)	(244)
03		Fixed Costs	9,854	5,081
		Total Statewide Adjustments	$52,836	$48,188
Significant Present Law Adjustments				
04	91001	Commissioner Payout	0	4,366
05	91002	Electronic Reporting	(14,483)	(14,483)
06	91003	Ethics Commission Expenses	8,500	8,500
07	91004	Base Equipment Expenditures	(4,296)	(4,296)
		Total Significant PL Adjustments	($10,279)	($5,913)
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$42,557	$42,275

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment - **The large increase in personal services is primarily due to full funding of several positions that were vacant for part of fiscal 1996, including 2.0 FTE added to implement SB 136. For a further explanation, see the comment in the new proposals section.**

4) Commissioner Payout - The current commissioner's term will expire in fiscal 1999. Termination pay for sick leave and vacation to be paid out is $4,366 general fund.

LFD Issue - **Termination pay is essentially a contingency appropriation. Because the exact figure usually cannot be known, these costs are generally paid from regular operating costs of the agency.**

5) Electronic Reporting - Fiscal 1996 actual expenditures were $16,983. The Executive Budget provides for $2,500 each year of the 1999 biennium to continue design of a program to allow candidates and political committees to file required reports electronically.

6) Ethics Commission Expenses -This recommendation is for general fund of $8,500 each year to pay for travel expenses to meetings or hearings, materials, and related expenses of the commission. The ethics commission is administratively attached by statute to the commissioner's office. Although the ethics commission has not yet been established, it is anticipated to begin reviewing ethics decisions in cases involving state officers, legislators, and state employees in fiscal 1997.

LFD Comment - **SB 136, passed by the 1995 legislature, established a five-member ethics commission whose members were to be appointed by the majority and minority leaders of each house of the legislature. The commission members have not yet been appointed.**

7) Base Equipment Expenditures - There was $4,296 expended in fiscal 1996 for equipment. The commissioner is not requesting any equipment in the 1999 biennium so there is a net reduction of a like amount each year of the 1999 biennium.

3202 01
Commissioner of Political Practices **Administration**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Personal Services Reduction	(1.00)	(43,293)		(43,293)	(1.00)	(43,626)		(43,626)
Total For New Proposals	(1.00)	($43,293)		($43,293)	(1.00)	($43,626)		($43,626)

Executive New Proposals

1) Personal Services Reduction - The agency legal counsel 1.0 FTE position is being eliminated due to the lack of complaints filed since the new state ethics law went into effect July 1, 1995. Personal services overall decreases $37,022 in fiscal 1998 and $37,137 in fiscal 1999. Expenditures of $6,271 in fiscal 1998 and $6,489 in fiscal 1999 are reduced in building rent and capitol complex grounds due to the elimination of the legal counsel position. The position is identified as a new proposal to allow for legislative decision making.

LFD Issue **- The 1995 legislature authorized 2.0 FTE positions and appropriated $108,200 to allow the Commissioner of Political Practices to meet the requirements of SB 136 (Ethics Administration). The Commissioner opened an Ethics Office staffed by a 1.0 FTE agency legal counsel position and a 1.0 FTE administrative support position. Due to "the lack of complaints filed since the new state ethics law went into effect" the Commissioner closed the Ethics Office and both FTE positions have been vacant since May 10, 1996. The Commissioner anticipates meeting the requirements of SB 136 with existing staff, but wants the legislature to continue funding the 1.0 FTE administrative support position in case workload increases due to SB 136 requirements are greater than expected.**

Should the legislature agree that the 1.0 FTE agency counsel position is no longer necessary, it might also wish to eliminate the 1.0 FTE administrative support position. Since present law provides the Commissioner of Political Practices a 0.25 FTE administrative support position that is currently vacant, the legislature could eliminate the 1.0 FTE administrative support position and direct the Commissioner of Political Practices to meet the requirements of SB 136 by filling the 0.25 FTE administrative support position. In addition, the legislature could provide a restricted appropriation that would allow the Commissioner of Political Practices to hire additional staff should the need arise.

3401 00 Agency Proposed Budget				State Auditors Office				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	62.00	0.00	0.00	62.00	0.00	0.00	62.00	62.00
Personal Services	1,961,034	270,298	0	2,231,332	274,824	0	2,235,858	4,467,190
Operating Expenses	564,087	141,408	2,500	707,995	104,908	2,500	671,495	1,379,490
Equipment	59,030	36,694	0	95,724	12,250	0	71,280	167,004
Debt Service	0	40,600	0	40,600	40,600	0	40,600	81,200
Total Costs	$2,584,151	$489,000	$2,500	$3,075,651	$432,582	$2,500	$3,019,233	$6,094,884
General Fund	2,093,042	309,844	0	2,402,886	255,395	0	2,348,437	4,751,323
State/Other Special	491,109	179,156	0	670,265	177,187	0	668,296	1,338,561
Federal Special	0	0	2,500	2,500	0	2,500	2,500	5,000
Total Funds	$2,584,151	$489,000	$2,500	$3,075,651	$432,582	$2,500	$3,019,233	$6,094,884

Mission Statement

The state auditor is both the Commissioner of Insurance and the Commissioner of Securities, charged with the duty of licensing, registering, and regulating insurance companies and producers, securities issuers, salespeople, broker-dealers, investment advisers, and investment adviser representatives with the state.

Agency Description

The State Auditor's Office is established by Article VI, Section 1 of the Montana Constitution. The state auditor is both ex-officio commissioner of insurance and ex-officio commissioner of securities. The state auditor is charged with these duties: 1) licensing and regulating insurance companies and agents within the state; 2) adopting rules and administering small group insurance reform; and 3) regulating and registering securities dealers.

3401 00 State Auditors Office				Biennium Budget Comparison				
Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	62.00	0.00	62.00	62.00	0.00	62.00	62.00	62.00
Personal Services	2,231,332	0	2,231,332	2,235,858	0	2,235,858	4,116,926	4,467,190
Operating Expenses	705,495	2,500	707,995	668,995	2,500	671,495	1,087,198	1,379,490
Equipment	95,724	0	95,724	71,280	0	71,280	59,030	167,004
Debt Service	40,600	0	40,600	40,600	0	40,600	0	81,200
Total Costs	$3,073,151	$2,500	$3,075,651	$3,016,733	$2,500	$3,019,233	$5,263,154	$6,094,884
General Fund	2,402,886	0	2,402,886	2,348,437	0	2,348,437	4,265,430	4,751,323
State/Other Special	670,265	0	670,265	668,296	0	668,296	997,724	1,338,561
Federal Special	0	2,500	2,500	0	2,500	2,500	0	5,000
Total Funds	$3,073,151	$2,500	$3,075,651	$3,016,733	$2,500	$3,019,233	$5,263,154	$6,094,884

3401 01 State Auditors Office Program Proposed Budget	Central Management							
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	9.00	0.00	0.00	9.00	0.00	0.00	9.00	9.00
Personal Services	269,893	53,317	0	323,210	53,873	0	323,766	646,976
Operating Expenses	50,753	5,591	0	56,344	2,185	0	52,938	109,282
Equipment	0	20,284	0	20,284	8,440	0	8,440	28,724
Total Costs	$320,646	$79,192	$0	$399,838	$64,498	$0	$385,144	$784,982
General Fund	296,395	77,567	0	373,962	62,809	0	359,204	733,166
State/Other Special	24,251	1,625	0	25,876	1,689	0	25,940	51,816
Total Funds	$320,646	$79,192	$0	$399,838	$64,498	$0	$385,144	$784,982

Program Description

The Central Management Program is responsible for the administrative, budgeting, information systems, mail, personnel, accounting, and fiscal functions for the State Auditor's Office. The program also administers the transfer of insurance premium tax revenue to police and firefighter retirement systems.

The Central Management Program contains the position of the elected state auditor and is responsible for central administration functions for the agency. These functions are state mandated under Article VI of the Montana Constitution, and Titles 2, 17, 19, and 44, MCA.

Funding

The program is funded almost entirely from the general fund. Two state special revenue funds, the insurance fee account and the portfolio fee account, are used for a portion of personal services costs.

Executive Present Law

3401 01 State Auditors Office Central Management			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	53,317	53,873
02		Inflation/Deflation	(1,576)	(1,714)
03		Fixed Costs	9,041	5,773
		Total Statewide Adjustments	$60,782	$57,932
Significant Present Law Adjustments				
04	91001	Equipment	20,284	8,440
		Total Significant PL Adjustments	$20,284	$8,440
Other Base Adjustments			($1,874)	($1,874)
		Grand Total Present Law Adjustments	$79,192	$64,498

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - The table reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 4 percent vacancy savings rate was

applied in the 1997 biennium.

LFD Comment - **Expenditures for personal services increase over base year expenditures by 20 percent in fiscal 1998 and by 17 percent in fiscal 1999. Several factors in addition to the executive pay plan explain the expenditure increases. The state auditor's salary increases from $40,100 to $58,884 as required by 2-16-405, MCA, which sets the salaries of some elected state officials at the average of the salaries of comparable state officials in states neighboring Montana. One position was vacant for nearly all of fiscal 1996 and is now filled. One position has been upgraded and will be paid at a higher rate.**

2) Inflation/Deflation - The table primarily reflects decreased costs of telephone service.

3) Fixed Costs - Increased costs of rent, grounds maintenance and computer network charges explain most of this adjustment. Audit charges rise from $480 spent in fiscal 1996 to $3,615 in fiscal 1998 and then fall to $0 in fiscal 1999 because the audit is a biennial appropriation.

4) Equipment - The fiscal 1998 amount includes $17,638 for computers and $2,646 for communications equipment and the fiscal 1999 amount includes $6,840 for computers and $1,600 for communications equipment.

3401 03 **State Auditors Office** Program Proposed Budget				Insurance				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	42.00	0.00	0.00	42.00	0.00	0.00	42.00	42.00
Personal Services	1,372,663	158,479	0	1,531,142	161,725	0	1,534,388	3,065,530
Operating Expenses	426,077	130,658	2,500	559,235	101,173	2,500	529,750	1,088,985
Equipment	30,104	43,716	0	73,820	22,016	0	52,120	125,940
Debt Service	0	40,600	0	40,600	40,600	0	40,600	81,200
Total Costs	$1,828,844	$373,453	$2,500	$2,204,797	$325,514	$2,500	$2,156,858	$4,361,655
General Fund	1,435,438	207,447	0	1,642,885	164,540	0	1,599,978	3,242,863
State/Other Special	393,406	166,006	0	559,412	160,974	0	554,380	1,113,792
Federal Special	0	0	2,500	2,500	0	2,500	2,500	5,000
Total Funds	$1,828,844	$373,453	$2,500	$2,204,797	$325,514	$2,500	$2,156,858	$4,361,655

Program Description

The Insurance Program regulates the insurance industry in Montana for the protection of Montana consumers. The division is comprised of three bureaus: Compliance, Examinations, and Producer Licensing. The Compliance Bureau is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies. The bureau also investigates insurance code and rule violations. The Examinations Bureau is responsible for collecting premium taxes and company fees, and auditing insurance company annual statements. The bureau also is responsible for reviewing form filings to ensure compliance with insurance code and reviewing rate filings. The Producer Licensing Bureau is responsible for licensing insurance agents, agencies, and adjustors.

The insurance regulatory function in the State Auditor's Office is a state-mandated service. The mandates are stipulated in Article VI of the Montana Constitution; Title 2, Chapter 16, MCA; Title 44, Chapter 5, MCA; and Titles 17 and 33, MCA.

Funding

The program is funded by general fund and state special revenue. State special revenue comes from nonresident insurance producer license fees, fees charged for insurance company examinations, and fees on insurance agents. Agent fees support the insurance industry continuing education program and the insurance regulatory accreditation function.

With the exception of the state special revenue fees described above, all other insurance license and permit fees and premium taxes collected by the program are deposited to the general fund.

The State Auditor's Office is also requesting spending authority for federal funds of $2,500 each fiscal year to print insurance buying guides that will explain long-term care insurance and Medicare supplemental insurance. The funds are to come from the Health Care Financing Administration through the Department of Public Health and Human Services.

LFD Issue **- There are at least two issues with funding for this program:**

1) Nonresident insurance producer license fees are currently deposited into the state special revenue fund. 33-2-708(4)(a), MCA, requires that nonresident insurance producer license fees be deposited into the general fund. If the legislature decides these fees should be deposited into the general fund, it should direct the state auditor's office to do so. If the legislature decides that these funds should be deposited into the state special revenue fund, it will need to amend 33-2-708(4)(a), MCA.

2) Two sections of the MCA that refer to funds collected by the insurance program are in conflict. 33-2-708(4)(a), MCA, requires that all money derived from insurance company examination fees be deposited to the general fund, while 33-1-413, MCA requires the insurance program to deposit into the state special revenue fund the money it receives from insurance companies to reimburse the living and travel expenses of insurance company examiners. Language adopted by the 1995 legislature in HB 2 directed the state auditor to "abate" insurance company examination expenditures, that is, the state auditor was not to record in year-end accounting records either the expenditures for contracted insurance company examiners or the revenue received from insurance companies as reimbursement for those expenditures. Because of the direction to abate expenditures, the insurance program did not deposit examination fees into the state special revenue fund in the 1997 biennium. The Legislative Audit Division noted that these practices were not in compliance with current statutes or with generally accepted accounting principles and recommended that the state auditor stop abating expenditures and begin depositing examination fees into the state special revenue account. The state auditor's office plans to follow this recommendation and to deposit insurance fees into the state special revenue account as required by 33-1-413, MCA, and not into the general fund, as required by 33-2-708(4)(a), MCA. In light of 1-2-102, MCA, which states that in cases of conflict between statutes, the provisions of the specific statute take precedence over those of the general statute, the fees should, in fact, go to the state special revenue account. However, to avoid any possible confusion, the legislature may want to resolve the statutory conflict by amending 33-2-708(4)(a), MCA.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - The table reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 4 percent vacancy savings rate was applied in the 1997 biennium.

LFD Comment - **Expenditures for personal services increase over base year expenditures by 12 percent in fiscal 1998**

3401 03
State Auditors Office
Insurance

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	157,984	161,230
02		Inflation/Deflation	(4,699)	(5,304)
03		Fixed Costs	29,663	17,600
		Total Statewide Adjustments	$182,948	$173,526
Significant Present Law Adjustments				
04	91001	Equipment	43,716	22,016
05	91002	Integrated Insurance And Securities Syste	40,600	40,600
06	91003	Overtime	495	495
07	91004	Contracted Hearing Officers	16,454	954
08	91005	Office Supplies	(12,188)	(12,188)
09	91006	Education & Training	(8,074)	(8,074)
10	91301	Contract Examinations	0	0
		Total Significant PL Adjustments	$81,003	$43,803
Other Base Adjustments			($498)	$3,185
		Grand Total Present Law Adjustments	$263,453	$220,514

and by 11 percent in fiscal 1999. The main reason for these increases is that 10.0 FTE positions were vacant for much of fiscal 1996. The insurance program budget anticipates that the vacancy rate for these positions will not exceed three percent in the 1999 biennium.

2) Inflation/Deflation - Decreased costs of telephone service are the primary item.

3) Fixed Costs - Increased costs of rent and computer network charges which rise $14,055 in fiscal 1998 and $18,036 in fiscal 1999 explain most of this adjustment. Audit charges rise from $1,386 spent in fiscal 1996 to $14,519 in fiscal 1998 and then fall to $0 in fiscal 1999 because the audit is a biennial appropriation.

4) Equipment - These amounts reflect the increase from the fiscal 1996 equipment expenditures of $31,104. The fiscal 1998 amount includes $57,000 for computers and $16,820 for communications equipment and the fiscal 1999 amount includes $43,320 for computers and $8,800 for communications equipment.

5) Integrated Insurance and Securities System - The increase of $40,600 each year provides for debt service payments on development costs of this automated system. The current system is no longer reliable. An Intercap loan from the Board of Investments is used to pay development and hardware costs. Repayment of this loan is from the insurance fee state special revenue account.

LFD Issue **- This request is for funds to purchase hardware and to develop a new system to aid in licensing and regulating insurance companies and in regulating registered securities dealers. Total hardware and system development costs are expected to be $171,383. The State Auditor's Office wants to pay for the system with an Intercap loan from the Board of Investments that would be repaid over five years. Should the legislature agree to the purchase of the system, ongoing funding will be required into the 2003 biennium.**

Since funds will be used to purchase new equipment, rather than to replace old equipment, this request should have come as a new proposal rather than as an adjustment to present law.

6) Overtime - There is an increase of $495 in overtime expense each year to meet the statutory requirements for processing insurance company annual statements, depositing premium tax payments, reviewing agent continuing education certifications, and mailing agent licenses.

7) Contracted Hearing Officers - The increase of $16,454 in fiscal 1998 and $954 in fiscal 1999 is for an estimated increase in the number of administrative actions that require the appointment of a contracted hearing officer. The increase is based upon eight administrative actions that will require a hearing and an additional eight that will be resolved prior to hearing but that require the services of a hearing officer.

8) Office Supplies - The decrease of $12,188 each year is attributable to the removal of one-time expenditures for modular furniture from the operating expenses base.

9) Education and Training - The decrease of $8,074 each year is due to the removal of one-time Windows operating system training expenditures from the base.

Other Base Adjustments - Several small increases and decreases in operating expenses make up the net change from the base year.

3401 03 State Auditors Office Executive Budget New Proposals	Insurance							
	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Federal Funds Authority			2,500	2,500			2,500	2,500
Total For New Proposals			$2,500	$2,500			$2,500	$2,500

Executive New Proposals

1) Federal Funds Authority - This proposal will provide federal spending authority for HCFA funds received through Aging Services of the Senior Support Services Division, Department of Public Health and Human Services.

LFD Comment - HCFA is the federal Health Care Financing Authority. The state auditor's office plans to use the funds to pay for the cost of printing insurance buying guides that will explain long-term care insurance and Medicare supplemental insurance.

Executive Language Recommendation

The following language is recommended for inclusion in HB 2:

> "The department is appropriated amounts up to $110,000 in fiscal 1998 and $105,000 in fiscal 1999 from the insurance fee account in the state special revenue fund for contract examinations."

LFD Comment - State law requires the State Auditor's Office to conduct examinations of insurance companies and securities dealers who do business in Montana. HB 2, passed by the 1995 legislature, directed the state auditor to "charge companies directly for examinations and abate expenditures" i.e. not record expenditures on the official state accounting system. In fiscal 1996, expenditures of $90,815 associated with the insurance company examinations were accordingly not recorded on the state's accounting records. In the financial compliance audit of the state auditor's office for the two fiscal years ended June 30, 1996, the Legislative Audit Division (LAD) noted that 17-1-102(2), MCA and state accounting policy (Management Memo 2-94-2) require that "the accounting records of the state will show the receipt, use, and disposition of all funds in accordance with generally accepted accounting principles". The LAD also cited from Opinions of the Attorney General, Volume 39, number 25, which states that "Appropriation bills should not be held to amend substantive statutes by implication". The LAD recommended that the State Auditor's Office record all financial activity related to examinations of insurance and securities companies on the state's accounting record. The state auditor concurred with the LAD recommendation and agreed to seek legislative authority for the expenditures, which resulted in the executive language recommendation.

LFD Issue - Language appropriations are most properly reserved for use when the amount of funds to be received or the amount of expenditures to be paid are uncertain at the time of the appropriation. The State Auditor's Office can and does anticipate with a reasonable amount of certainty the amount of expenditures associated with examination of insurance companies and securities dealers. The legislature may therefore wish to appropriate these funds directly instead of through a language appropriation.

3401 04 **State Auditors Office** Program Proposed Budget				**Securities**				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	11.00	0.00	0.00	11.00	0.00	0.00	11.00	11.00
Personal Services	318,478	58,502	0	376,980	59,226	0	377,704	754,684
Operating Expenses	87,257	5,159	0	92,416	1,550	0	88,807	181,223
Equipment	28,926	(27,306)	0	1,620	(18,206)	0	10,720	12,340
Total Costs	$434,661	$36,355	$0	$471,016	$42,570	$0	$477,231	$948,247
General Fund	361,209	24,830	0	386,039	28,046	0	389,255	775,294
State/Other Special	73,452	11,525	0	84,977	14,524	0	87,976	172,953
Total Funds	$434,661	$36,355	$0	$471,016	$42,570	$0	$477,231	$948,247

Program Description

The Securities Program is responsible for the administration and enforcement of The Securities Act of Montana. The division is responsible for the registration of securities issuers, salespeople, broker-dealers, investment advisers, and investment adviser representatives; and investigation of unregistered and fraudulent securities transactions.

The securities regulatory function in the State Auditor's Office is a state-mandated service. The statutory authorization is contained in Title 30, Chapter 10, MCA.

Funding

The program is entirely funded by the general fund, with the exception of the securities portfolio registration function which is funded by state special revenue from securities portfolio registration fees.

All revenue from securities fees and fines, except for the securities portfolio fees, must be deposited to the general fund in accordance with 30-10-115, MCA.

LFD Issue **- The fiscal 1996 ending fund balance for the securities fee state special revenue account was $527,545. The budgeted expenditures from portfolio registration fees in fiscal 1996 were $83,096. The LAD, in its financial compliance audit of the State Auditor's Office for the two fiscal years ended June 30, 1996 noted that the securities fee account balance greatly exceeded the amount necessary to fund the securities portfolio registration function in fiscal 1997. The LAD also noted that the office has no formal mechanism to ensure that funds from this account are transferred to the general fund in a timely manner. The state auditor agreed to act on the recommendation. The legislature may wish to receive an update from the state auditor on how he intends to implement the LAD recommendation.**

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - The table reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 4 percent vacancy savings rate was applied in the 1997 biennium.

3401 04 State Auditors Office Securities			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	57,473	58,197
02		Inflation/Deflation	(1,575)	(1,605)
03		Fixed Costs	8,332	4,753
		Total Statewide Adjustments	$64,230	$61,345
Significant Present Law Adjustments				
04	91001	Equipment	(27,326)	(18,206)
05	91002	Overtime	1,029	1,029
06	91003	Contracted Hearing Examiners	(9,497)	(9,497)
		Total Significant PL Adjustments	($35,794)	($26,674)
Other Base Adjustments			($2,081)	($2,101)
		Grand Total Present Law Adjustments	$26,355	$32,570

LFD Comment **- Expenditures on personal services increase over base year expenditures by 18 percent in fiscal 1998 and by 16 percent in fiscal 1999. These percentage increases are largely due to full funding of 3.0 FTE positions that were vacant during much of fiscal 1996. The program budget anticipates that the vacancy rate for all positions will not exceed three percent in the 1999 biennium.**

LFD Issue **- The securities program personal services budget includes a 4 percent pay increase for a 1.0 FTE exempt personal staff position that has been vacant for over a year. The legislature may wish to determine during the legislative session whether the state auditor's office has definite intentions of filling this position by the beginning of the 1999 biennium before granting full funding and a pay raise for a vacant personal staff position.**

2) Inflation/Deflation - Decreased costs of telephone service are the primary item.

3) Fixed Costs - Increased costs of rent and computer network charges which rise $4,404 in fiscal 1998 and $5,438 in fiscal 1999 explain most of this adjustment. Audit charges rise from $619 spent in fiscal 1996 to $4,579 in fiscal 1998 and then fall to $0 in fiscal 1999 because the audit is a biennial appropriation.

4) Equipment - These amounts reflect the decrease from the fiscal 1996 equipment expenditures of $28,926. The fiscal 1998 amount includes $1,600 for communications equipment and the fiscal 1999 amount includes $9,120 for computers and $1,600 for communications equipment.

5) Overtime - The increase of $1,029 each year is for payment of overtime incurred by securities investigators called to testify in criminal cases. No cases of this type occurred in fiscal 1996 but cases typically result in about $1,000 of overtime payments per year.

6) Contracted Hearing Examiners - The decrease of $9,497 each year is due to the anticipated level of hearings scheduled in response to cease and desist orders. The department contracts with a hearing examiner to conduct these hearings. Two contested hearings per year are projected at a cost of $3,500 each.

Other Base Adjustments - Numerous small increases and decreases from the base year in operating expenses comprise the net other base adjustments.

Executive Language Recommendation

The following language is recommended for inclusion in HB 2:

> "The department is appropriated amounts up to $10,000 in fiscal 1998 and $10,000 in fiscal 1999 from the securities fee account in the state special revenue fund for contract examinations."

LFD Comment **- In fiscal 1996, expenditures of $7,350 associated with the state auditor's examinations of securities dealers were not recorded on the state's accounting records. (See the explanation that accompanies the executive language recommendation for the state auditor's insurance regulation program). The Legislative Audit Division has recommended that the State Auditor's Office record expenditures associated with examinations of securities dealers on the state's accounting records in the future. The state auditor has agreed to do so and has also decided to seek legislative authority for these expenditures, which resulted in the above executive language recommendation.**

LFD Issue **- Language appropriations are most properly reserved for use when the amount of funds to be received or the amount of expenditures to be paid are uncertain at the time of the appropriation. The State Auditor's Office can and does anticipate with a reasonable amount of certainty the amount of expenditures associated with examination of securities dealers. The legislature may therefore wish to appropriate these funds directly instead of through a language appropriation.**

5401 00

Agency Proposed Budget

Department of Transportation								
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	1,778.81	21.60	33.76	1,834.17	(2.20)	45.00	1,821.61	1,834.17
Personal Services	63,957,795	2,069,980	1,242,035	67,269,810	1,518,542	1,444,875	66,921,212	134,191,022
Operating Expenses	232,389,385	35,143,317	3,569,444	271,102,146	16,899,000	3,269,444	252,557,829	523,659,975
Equipment	2,334,262	(458,551)	1,088,860	2,964,571	(857,234)	377,232	1,854,260	4,818,831
Capital Projects	4,172,494	695,045	0	4,867,539	694,445	0	4,866,939	9,734,478
Local Assistance	249,800	200	0	250,000	200	0	250,000	500,000
Grants	3,078,194	562,990	4,000,596	7,641,780	333,383	4,000,596	7,412,173	15,053,953
Transfers	17,115	1,885	0	19,000	1,885	0	19,000	38,000
Debt Service	5,013	2,882	0	7,895	2,882	0	7,895	15,790
Total Costs	$306,204,058	$38,017,748	$9,900,935	$354,122,741	$18,593,103	$9,092,147	$333,889,308	$688,012,049
General Fund	249,800	200	0	250,000	200	0	250,000	500,000
State/Other Special	135,726,710	24,117,508	4,806,352	164,650,570	25,619,253	4,284,135	165,630,097	330,280,667
Federal Special	170,227,548	13,900,040	5,094,583	189,222,171	(7,026,350)	4,808,012	168,009,211	357,231,382
Total Funds	$306,204,058	$38,017,748	$9,900,935	$354,122,741	$18,593,103	$9,092,147	$333,889,308	$688,012,049

Mission Statement

To serve the public by establishing a transportation system which emphasizes safety, environmental preservation and cost-effectiveness.

Agency Description

The Department of Transportation is responsible for serving the public by establishing a transportation system that emphasizes safety, environmental preservation, cost-effectiveness, and quality.

Executive Summary

Interstate Projects

The Department of Transportation is reviewing the conditions of the interstate system. A certain surface type, known as Open Graded Friction Course (OGFC), was used for a period of time during the 1980s. This new open weave asphalt surface, while generally achieving its expected life, does deteriorate rapidly the last few years. Deterioration is particularly true in mountainous terrain or other heavily sanded areas. This situation has become obvious only in the past several years.

A significant portion of the interstate system with this surface type is not in the current five-year construction program or the budget request for the 1999 biennium. The pavement may provide adequate roadbed protection, but may not provide adequate rideability or may deteriorate faster than expected and eventually affect the roadbed, creating a situation that will require a more expensive fix.

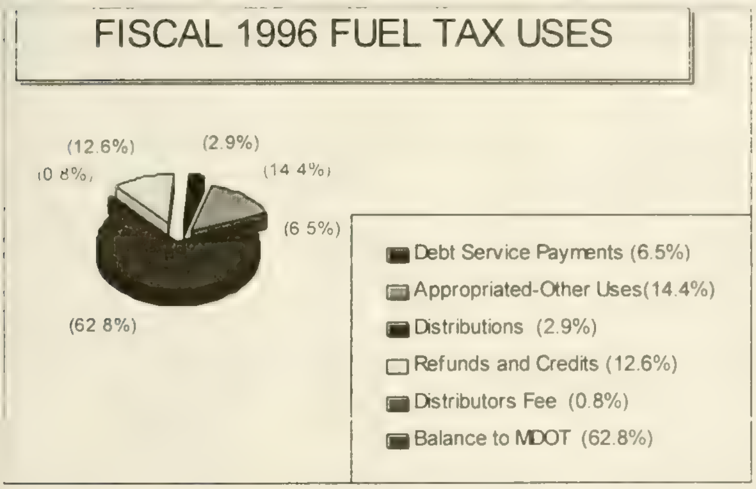
The department will complete the surface inspection and core testing within the next several months to determine the extent of the problem. The department will review various methods of financing these projects. This may include using a combination of existing pavement preservation funds, changing current construction project priorities, or using alternative funding.

The department is exploring alternative federal aid and bonding combinations. One likely alternative would have the department issue bonds on a short-term, project-by-project basis and request federal waivers for using future federal apportionment funds to pay bond interest expense.

The department plans to present this additional budget item to the General Government and Transportation Appropriations Subcommittee during the legislative session. This presentation may include additional funding needs on the overall interstate system when the results of the new pavement condition analysis are completed.

Projected Cash Balance in the Highways Special Revenue Account (HSRA)

Chart 1



Following enactment of SB 257 in the 1993 legislative session, which raised the gas and diesel tax rates by $0.07 per gallon, the HSRA was projected to continue to experience annual deficits at current service expenditure levels (see the Executive Appropriations Report for the Regular Session of the 53rd Legislature, page A-13). The HSRA cash balance was projected to be negative by the end of the 1999 biennium, requiring additional revenues or reductions in highway construction, maintenance, or other HSRA funded programs.

The fiscal condition of the HSRA has improved since 1993, primarily due to higher revenues. However, although the projected ending cash balance for the 1999 biennium is positive, a pattern of negative ending cash balances is projected to begin in the 2001 biennium unless there are significant, permanent increases in revenue or decreases in the growth of cash disbursements. It should be noted that the revenue estimate assumptions used for cash flow analysis projections are considered conservative and do not incorporate potential revenue increases that may result from department initiatives such as the development of the Montana Tax and Revenue System (MOTRS), dyed fuel testing, new proposals to continue motor fuel tax audit and compliance enhancement efforts, and the legislative proposal to change the point of taxation for diesel fuel.

Over the long term, it is inevitable that projected HSRA cash balances will decline due to fact that fuels and GVW taxes are a flat revenue structure. For example, the tax rate is $0.27 per gallon regardless of inflationary increases in the price of a gallon of gas. Therefore, unless the state population, tourism industry, and economy experience considerable growth rates over the long term, even low inflationary increases in construction, maintenance, and department overhead expenditures will eventually outpace revenues.

The Executive Budget proposes the following major initiatives affecting the HSRA, intended to more effectively utilize projected HSRA revenues for sustained increases in highway maintenance and construction without requiring immediate tax increases or reductions in present law maintenance and construction expenditures:

1) increase the FTE levels and contracted services authority in the Maintenance Program to better meet peak workload demands for winter maintenance statewide;

2) implement a preventive maintenance effort funded at an initial level of $1 million each year that will aggressively address the prevention/deferral of future reconstruction costs;

3) maximize within available cash and revenue the state-funded construction and pavement preservation projects previously referred to as the reconstruction trust fund program; and

4) fund the Department of Justice Motor Vehicle Division from a decreased level of HSRA funding beginning in fiscal 1998. It is proposed to reduce the HSRA funds in this program by $500,000 each year below the present law amount.

The department must make payments to contractors prior to receiving federal reimbursements and therefore has required a minimum working cash balance in the HSRA of approximately $5 to $10 million. The projected balance at the end of the 1999 biennium is within the $5 to $10 million minimum balance range. Particularly during the summer months when payments to contractors are relatively high, the HSRA may require short-term loans pending receipt of federal reimbursements. As a result of the federal Cash Management Improvement Act (CMIA), the lag between clearance of state warrants and receipt of federal highway administration reimbursements has been reduced to approximately one day. The department anticipates that further improvements will virtually eliminate this cash lag.

Table 1
Combined Long Range Planning Document - Hwy Special Revenue Funds
(Earmarked, Reconstruction Trust, Non-Restricted)

	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Beginning Working Cash Balance	$67,156,047	$76,711,086	$34,740,490	$41,910,526	$38,342,981	$22,276,486	$5,356,872	($2,222,969)	($11,516,170)	($22,112,958)	($23,899,014)	($23,348,679)	($24,281,330)
Revenue													
G V W	$27,863,178	$29,412,721	$29,714,560	$29,396,421	$29,396,421	$29,396,421	$29,396,421	$29,396,421	$29,396,421	$29,396,421	$29,396,421	$29,396,421	$29,396,421
Gas Tax	108,594,636	119,536,981	124,147,066	125,388,536	126,642,422	127,908,846	129,187,935	130,479,814	131,784,612	133,102,458	134,433,483	135,777,818	137,135,596
Diesel Tax	43,412,610	37,507,286	47,216,300	47,688,463	48,165,348	48,647,002	49,133,472	49,624,806	50,121,054	50,622,265	51,128,488	51,639,772	52,156,170
Accounts Receivable	1,760,106	1,962,446	2,103,739	1,880,000	1,880,000	1,880,000	1,880,000	1,880,000	1,880,000	1,880,000	1,880,000	1,880,000	1,880,000
Coal Tax	4,942,557	4,849,940	0	0	0	0	0	0	0	0	0	0	0
Stores	13,413,888	13,891,231	0	0	0	0	0	0	0	0	0	0	0
Transportation Planning	13,200	11,812	139,785	53,530	53,530	53,530	53,530	53,530	53,530	53,530	53,530	53,530	53,530
Other													
Misc Revenues Repayments from Motor Pool	$2,099,140	$1,247	$176,978	$1,731,405	$186,500	$186,500	$186,500	$186,500	$186,500	$186,500	$128,500	$128,500	$128,500
Dept of Justice	138,414	134,807	93,583	93,583	93,583	93,583	93,583	93,583	93,583	93,583	93,583	93,583	93,583
Tribal Distribution	(1,858,645)	(2,288,758)	(3,858,880)	(2,864,421)	(2,864,421)	(2,748,148)	(2,748,148)	(2,748,148)	(2,748,148)	(2,748,148)	(2,748,148)	(2,748,148)	(2,748,148)
Bond Earnings	0	0	0	0	0	0	0	0	0	0	0	0	0
Prior Year Revenue Adj	52,570	804,338	302,997	0	0	0	0	0	0	0	0	0	0
Total Revenue	$200,431,653	$205,824,051	$200,036,129	$203,367,518	$203,553,383	$205,417,734	$207,183,293	$208,966,507	$210,767,553	$212,586,609	$214,365,857	$216,221,476	$218,095,652
Available Working Cash	$267,587,700	$282,535,137	$234,776,619	$245,278,044	$241,896,364	$227,694,220	$212,540,165	$206,743,538	$199,251,383	$190,473,652	$190,466,843	$192,872,797	$193,814,323
Expenditures													
Construction	$29,417,589	$31,144,463	$27,333,802	$32,185,514	$20,983,940	$15,528,546	$12,871,154	$12,872,540	$12,873,927	$12,875,314	$12,876,700	$12,878,087	$12,879,474
Construction to be Let	0	0	0	5,707,660	20,949,398	18,062,928	18,925,531	19,439,330	19,472,958	19,458,036	19,443,090	19,427,693	19,412,024
Construction Reversions			954,279	1,428,000	0	0	245,672	245,672	245,672	245,672	245,672	245,672	245,672
[illegible] Contractor Payment Reduction				(2,727,105)	(3,547,857)	(2,532,055)							
Construction New Proposals					556,420	341,409							
Preconstruction	7,286,404	7,883,509	9,154,386	10,992,689	11,810,920	11,770,560	11,770,560	11,770,560	11,770,560	11,770,560	11,770,560	11,770,560	11,770,560
State Funded Construction (Reconstruction Trust)	14,953,198	21,963,660	27,031,696	30,283,262	9,690,233	757,781	250,000	250,000	250,000	250,000	250,000	250,000	250,000
State Funded Construction to be Let			0	2,416,536	21,958,081	41,599,517	34,750,000	34,750,000	34,750,000	34,750,000	34,750,000	34,750,000	34,750,000
[illegible] Contractor Payment Reduction				(4,079,543)	(3,592,079)	(4,872,180)							
Maintenance	58,525,487	60,286,638	59,300,130	61,288,532	63,919,166	63,724,391	65,636,123	67,605,206	69,633,363	71,722,363	73,874,034	76,090,255	78,372,963
Maintenance Reversions			2,794,217	200,250	0	0	2,015,000	2,015,000	2,015,000	2,015,000	2,015,000	2,015,000	2,015,000
Maintenance New Proposals					3,349,827	3,068,015							
General Operations	8,309,797	8,727,025	10,394,391	10,248,297	11,233,895	11,145,458	11,479,822	11,824,216	12,178,943	12,544,311	12,920,641	13,308,260	13,707,508
General Operations Reversions			271,700	1,595,200	0	0	881,657	881,657	881,657	881,657	881,657	881,657	881,657
General Operations New Proposals					870,204	930,810							
Dept of Public Health & Human Serv - Dyed Fuel	0	26,990	45,484	79,000	79,000	79,000	79,000	79,000	79,000	79,000	79,000	79,000	79,000
G V W - Motor Carrier Services	3,973,802	3,996,610	4,218,848	4,356,551	4,380,657	4,392,204	4,523,970	4,659,689	4,799,480	4,943,464	5,091,768	5,244,521	5,401,857
Transportation Planning	833,140	1,374,442	950,000	1,435,842	776,978	737,793	759,927	782,725	806,206	830,393	855,304	880,963	907,392
Transportation Planning New Proposals					90,000	4,000	0	0	0	0	0	0	0
Headquarters Building	585,057	567,578	602,268	0	0	0	0	0	0	0	0	0	0
A & E	2,353,329	1,094,816	1,626,510	2,000,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000
Local Government	16,712,000	16,766,000	16,766,000	16,766,000	16,766,000	16,766,000	16,766,000	16,766,000	16,766,000	16,766,000	16,766,000	16,766,000	16,766,000
H B 2 Capped Fuel Revenue					5,497,866	6,040,769							
Bond Principal & Interest	17,351,878	57,298,816	15,257,853	15,562,516	13,935,328	13,936,402	13,932,718	13,935,352	13,936,852	3,798,551	0	0	0
Dept of Justice	14,158,083	17,757,320	15,302,281	15,661,863	16,200,000	16,400,000	16,892,000	17,398,760	17,920,723	18,458,344	19,012,095	19,582,458	20,169,931
Dept of Justice - P S Contingency			0	200,000									
Stores	16,498,395	20,661,113	0	0	0	0	0	0	0	0	0	0	0
Dept of Fish Wildlife & Parks	360,198	1,371,831	167,389	1,334,000	1,334,000	1,334,000	1,334,000	1,334,000	1,334,000	1,334,000	1,334,000	1,334,000	1,334,000
1987 Bond Refund	0	0	0	0	0	0	0	0	0	0	0	0	0
Entity Adjustment	202,740	(2,068,500)	(3,528,503)	0	0	0	0	0	0	0	0	0	0
Prior Year Expenditure Adj	(1,144,483)	(1,057,665)	4,223,362	0	0	0	0	0	0	0	0	0	0
Estimated 1999 Biennium Pay Plan					727,900	1,472,000							
Total Expenditures	$190,876,614	$247,794,647	$192,866,094	$206,935,063	$219,619,878	$222,337,347	$214,763,134	$218,259,708	$221,364,340	$214,372,666	$213,815,522	$217,154,127	$220,593,039
Ending Working Cash Balance	$76,711,086	$34,740,490	$41,910,526	$38,342,981	$22,276,486	$5,356,872	($2,222,969)	($11,516,170)	($22,112,958)	($23,899,014)	($23,348,679)	($24,281,330)	($26,778,716)

p 5401 5401\CASH AY4

Agency Issue

Declining Fund Balance & Negative Cash Flow in the Highways Fund

The 1997 legislature is faced with a declining fund balance in the Highways Special Revenue Account (HSRA) which is projected to result in a negative cash balance of $11.1 million by the end of the 2001 biennium. Current projections indicate a negative cash flow of over $30 million in this account in the 1999 biennium resulting in a deterioration of the account's cash balance. The LFD's cash flow analysis of the HSRA account is provided in Table 2, highlighting fiscal years 1996 through 2001, and uses revenue assumptions adopted by the Revenue Oversight Committee (ROC) in December 1996. The ROC estimates were not available when the executive budget was submitted. As such, the revenues used in the executive's cash flow analysis (Table 1) are slightly lower than the adopted ROC estimates. For purposes of this discussion, please refer to Table 2.

The executive is proposing a budget that will leave a positive, but minimal, fund balance at the end of the 1999 biennium of $5.6 million and is recommending that $500,000 each year of HSRA funds be replaced with general fund in the Motor Vehicle Division in the Department of Justice. However, the budget proposal offers no intermediate or long-term strategy to address the HSRA fund's continued solvency. As well, the executive is not pursuing any legislation that would increase revenues to this account in the 1999 biennium. As stated by the executive, the significantly reduced cash balance in the HSRA may require MDT to resort to the use of short-term bonds or other financing methods for certain projects. This may be necessary due to the fact that the federal highway program is a reimbursable program; that is, the federal government only reimburses states for costs actually incurred, when a project is at completion. Therefore, front-end financing of the project must be covered by the state. In previous biennia, the department has maintained that a $20 million minimum working cash balance was necessary to meet the agency's needs. The projected $5.6 million ending cash balance in fiscal 1999 is far below that amount, and the executive has revised the minimum acceptable cash balance to the $5 to $10 million range based on improved federal cash collection methods.

The structural imbalance within the HSRA is essentially the result of escalating highways expenditures, which are funded by a relatively inelastic or flat revenue base. Other ancillary factors have contributed to the present decline in fund balance, such as the elimination of non-user fee revenue sources, diversion of certain fuel tax revenues, an increased expenditure level in the state-funded construction program, funding shifts, and deficit spending. A more detailed discussion of these factors is discussed under a subsequent section titled "Contributing Factors to the HSRA Fund Balance Decline".

Table 2
Cash Flow Analysis - Highway Special Revenue Account
Projected Revenues & Expenditures
Fiscal Years 1996 - 2001

	FY 96 Actuals	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Beginning Working Cash Balance	$34,740,490	$41,910,224	$38,416,851	$22,425,271	$5,581,319	($1,922,103)
REVENUE						
Gas Tax*	$124,147,066	$125,463,011	$126,717,642	$127,984,818	$129,264,667	$130,557,314
Diesel Tax*	47,216,000	47,688,160	48,165,042	48,646,692	49,133,159	49,624,491
G.V.W.	29,714,560	29,396,421	29,396,421	29,396,421	29,396,421	29,396,421
Accounts Receivable	2,103,739	1,880,000	1,880,000	1,880,000	1,880,000	1,880,000
Misc. Other Revenues	713,344	1,878,519	333,613	333,613	333,613	333,613
Tribal Distribution	(3,858,880)	(2,864,421)	(2,864,421)	(2,748,148)	(2,748,148)	(2,748,148)
TOTAL REVENUE	$200,035,829	$203,441,690	$203,628,297	$205,493,396	$207,259,712	$209,043,691
Available Working Cash	$234,776,319	$245,351,914	$242,045,148	$227,918,667	$212,841,031	$207,121,588
EXPENDITURES						
Federal Aid Construction	$37,442,467	$50,313,863	$53,744,258	$45,362,034	$43,812,917	$44,328,102
12% Contractor Payment Reduction		(2,727,105)	(3,547,857)	(2,532,055)		
Construction New Proposals			556,420	341,409		
State-funded Construction (RTF)	27,031,696	32,699,798	31,648,314	42,357,298	35,000,000	35,000,000
12% Contractor Payment Reduction		(4,079,543)	(3,592,079)	(4,872,180)		
Maintenance	62,094,347	61,488,782	63,919,166	63,724,391	67,651,123	69,620,206
Maintenance New Proposals			3,349,827	3,068,015		
General Operations	10,666,091	11,843,497	11,233,895	11,145,458	12,361,479	12,705,873
General Operations New Proposals			870,204	930,810		
Transportation Planning	950,001	1,435,842	776,978	737,793	759,927	782,725
Transportation Planning New Proposals			90,000	4,000		
G.V.W. (Motor Carrier Services)	4,218,848	4,356,551	4,380,657	4,392,204	4,523,970	4,659,689
HB 5 Long Range Building-DOT	2,228,778	2,000,000	1,650,000	1,650,000	1,650,000	1,650,000
Debt Service/Bond Principal & Interest	15,257,853	15,562,516	13,935,328	13,936,402	13,932,718	13,935,352
Local Government Distribution	16,766,000	16,766,000	16,766,000	16,766,000	16,766,000	16,766,000
HB 2 - Capped Fuel Revenue/Local Govt.			5,497,866	6,040,769		
Dept of Justice	15,302,281	15,861,863	16,200,000	16,400,000	16,892,000	17,398,760
Dept of Fish,Wildlife & Parks	167,389	1,334,000	1,334,000	1,334,000	1,334,000	1,334,000
PHHS/Dyed Fuel	45,484	79,000	79,000	79,000	79,000	79,000
Adjustments	694,859					
Estimated 1999 Biennium Pay Plan			727,900	1,472,000		
TOTAL EXPENDITURES	$192,866,094	$206,935,063	$219,619,877	$222,337,348	$214,763,134	$218,259,707
Revenue & Expenditure Variance	7,169,734	(3,493,373)	(15,991,580)	(16,843,951)	(7,503,422)	(9,216,016)
Ending Working Cash Balance	$41,910,224	$38,416,851	$22,425,271	$5,581,319	($1,922,103)	($11,138,119)

Note: Dept. of Justice budgeted amounts in the 1999 biennium and beyond assumes a funding switch which the executive is proposing and which reduces HSRA funding of the Motor Vehicle Division by $500,000 each fiscal year

** Gasoline and diesel fuel tax revenues based on Revenue Oversight Committee estimates adopted December 2, 1996

Cash Flow Analysis - 1999 Biennium Projections

Revenue Assumptions

Table 2 highlights actual and projected HSRA revenues and expenditures from fiscal 1996 through fiscal 2001. The gas and diesel fuel tax revenue projections presented in the table are those which were adopted by the Revenue Oversight Committee on December 2, 1996, and which, as previously mentioned, vary slightly from those used in the executive's cash flow analysis in Table 1. It should be noted that the revenue figures presented by the executive are not materially different from the official ROC estimates.

State generated revenues are based on a 1.0 percent inflationary increase in fuel tax collections each fiscal year. The GVW fee revenues were provided by MDT and are held constant based on historical trends. There is some variance notable in the tribal distributions, which is attributable to negotiated agreements made between MDT and specific tribes and which resulted in some retroactive payments in fiscal year 1996.

Expenditure Assumptions

Expenditures in the 1999 biennium are based upon the executive budget requests. The LFD was advised that future expenditures (i.e. FY 2000 and beyond) include a 3.0 percent inflationary rate increase. However, it would appear that some expenditures which should have been inflated by 3.0 percent in future biennia were not; thus resulting in potentially understated expenditures in fiscal years 2000 and beyond. The LFD uses the budgeted expenditures as provided by the executive.

The executive has also included the assumption of a 12 percent reduction from budgeted contractor payments for fiscal years 1997, 1998, and 1999. According to MDT, this 12 percent reduction represents a multi-year trend of contractor payments being less than forecasted amounts as a result of construction project delays. The LFD questions the rationale of this assumption since it would appear to be a delay rather than a true reduction in contractor payments. As indicated in the table, contractor payment reductions amount to $6.8 million in fiscal 1997, $7.1 million in fiscal 1998 and $7.4 million in 1999. Contractor payment reductions are not intended to mean that awarded contracts are reduced by 12 percent, but that the overall annual disbursements to contractors will be more reflective of historical expenditures.

The executive is also proposing that HSRA funding of the Motor Vehicle Division of the Department of Justice be reduced by $500,000 beginning in fiscal 1998, with a corollary increase proposed in general fund support for that program (see the Department of Justice in Section D). Relevant amounts in Table 2 reflect this reduction in the HSRA account. If this executive proposal is not approved as requested, the budgeted expenditures in the HSRA account relating to the Department of Justice will increase by $500,000 annually beginning in the 1999 biennium.

Fund Balance Projections

Projected expenditures in the 1999 biennium, including modest increases from new proposals, are shown to exceed revenues by $16.0 million in fiscal 1998 and by $16.8 million in fiscal 1999, with the fund's cash balance at the end of fiscal 1999 declining to $5.6 million. Deficit spending in the 1999 biennium will significantly reduce the HSRA fund balance, with a continued downward trend projected into future biennia. Under current conditions and assumptions, the projected HSRA fund balance will reach a deficit position in the 2001

biennium with a negative $11.1 million by the end of fiscal year 2001. If the executive's proposed funding switch of the Motor Vehicle Division is not approved, the fund balance in the HSRA would decline to a negative $13.1 million in fiscal year 2001.

Uses of HSRA Funds

The highways special revenue fund supports several highways and highways related programs, including: 1) state match funds for federal aid funds; 2) 100 percent of highway maintenance funding; 3) a 100 percent state funded Reconstruction Trust Fund (RTF) program; 4) local government gas tax distributions; 5) administration of the Montana Department of Transportation (MDT), the Highway Patrol Division and the Motor Vehicle Division in the Department of Justice; 6) state park roads (FWP); and 7) other highways related uses.

Highways Revenue Sources

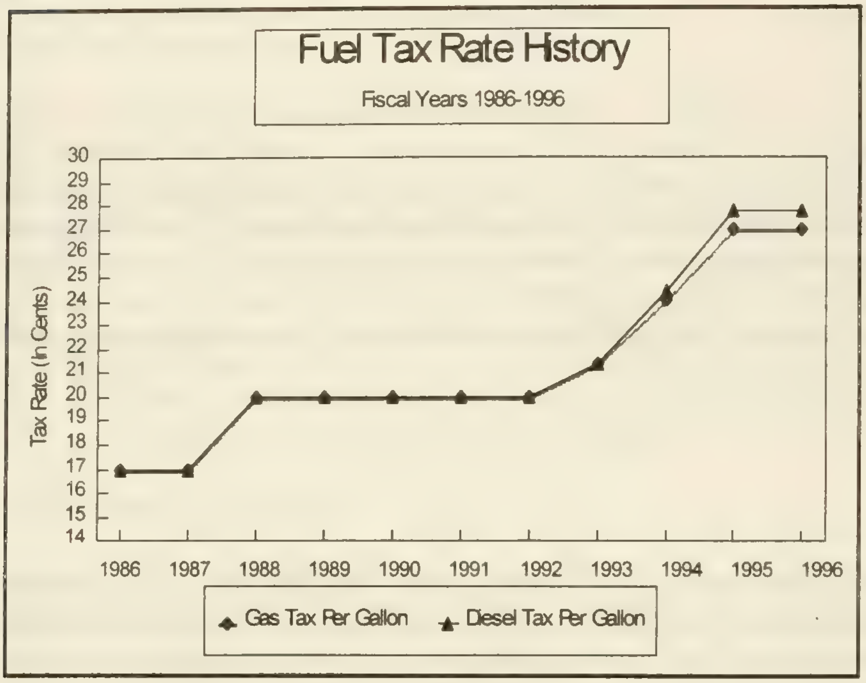
State Revenue Sources

The primary source of HSRA revenues is highway user fees, including fuel taxes (gasoline and diesel) and gross vehicle weight (GVW) fees. Table 3 provides an historical analysis of gas and diesel fuel tax revenues, with Charts 2 and 3 showing graphical depictions of fuel tax rates and fuel tax revenues from 1987 through 1996. As indicated, tax revenues rose sharply in both the 1989 and 1995 bienniums due to tax increases instituted, with revenues increasing 21 percent in fiscal 1988 and 31 percent in fiscal 1994. The additional fuel tax revenues generated by these tax measures were in excess of revenue projections. As well, diesel fuel tax revenues increased by 66 percent in fiscal 1994. This significant increase has been attributed to greater tax compliance due to the change in collection methods, with the tax now collected at the distributor level. Diesel fuel tax revenues have grown in recent years as a percentage of total fuel tax revenues, contributing nearly 28 percent of total fuel tax revenues in fiscal 1996 versus an average of 22 percent from fiscal 1987 through 1993.

Table 3
Historical Fuel Tax Revenues
Annual Fluctuations in Revenues
Fiscal Years 1987-1996

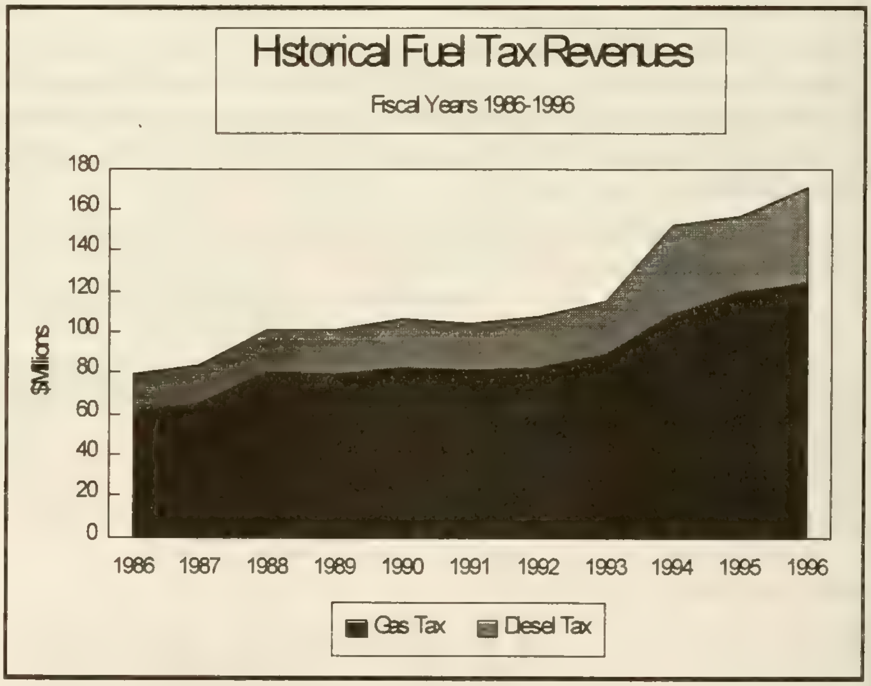
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
GAS TAX REVENUES										
Gas Tax Rate (cents)	17	20	20	20	20	20	21.4	24	27	27
Annual Gas Tax Revenues	$65,146,091	$79,675,078	$78,916,400	$82,282,766	$81,125,141	$82,825,427	$89,534,371	$108,594,636	$119,536,981	$124,147,066
Prior Year Revenues	60,481,888	65,146,091	79,675,078	78,916,400	82,282,766	81,125,141	82,825,427	89,534,371	108,594,636	119,536,981
Increase(Decrease) over PY	$4,664,203	$14,528,987	($758,678)	$3,366,366	($1,157,625)	$1,700,286	$6,708,944	$19,060,265	$10,942,345	[illegible]
% Increase(Decrease)over PY	7.71%	22.30%	0.95%	4.27%	1.41%	2.10%	8.10%	21.29%	10.08%	3.86%
Gas Tax Revenues as % of Total Fuel Tax Revenues	78.39%	79.00%	77.65%	77.55%	78.06%	76.72%	77.38%	71.44%	76.12%	72.45%
DIESEL TAX REVENUES										
Diesel Tax Rate (cents)	17	20	20	20	20	20	21.4	24.4	27.75	27.75
Annual Diesel Tax Revenues	$17,964,241	$21,185,520	$22,708,492	$23,821,548	$22,797,863	$25,128,409	$26,179,233	$43,412,610	$37,507,286	$47,216,300
Prior Year Revenues	18,576,576	17,964,241	21,185,520	22,708,492	23,821,548	22,797,863	25,128,409	26,179,233	43,412,610	37,507,286
Increase(Decrease) over PY	($612,335)	$3,221,279	$1,522,972	$1,113,056	($1,023,685)	$2,330,546	$1,050,824	$17,233,377	($5,905,324)	$9,709,014
% Increase(Decrease)over PY	3.30%	17.93%	7.19%	4.90%	-4.30%	10.22%	4.18%	65.83%	-13.60%	25.88%
Diesel Tax Revenues as % of Total Fuel Tax Revenues	21.61%	21.00%	22.35%	22.45%	21.94%	23.28%	22.62%	28.56%	23.88%	27.55%
TOTAL FUEL TAX REVENUES	$83,110,332	$100,860,598	$101,624,892	$106,104,314	$103,923,004	$107,953,836	$115,713,604	$152,007,246	$157,044,267	[illegible]
Prior Year Revenue Level	79,058,464	83,110,332	100,860,598	101,624,892	106,104,314	103,923,004	107,953,836	115,713,604	152,007,246	157,044,267
Increase(Decrease) over PY	$4,051,868	$17,750,266	$764,294	$4,479,422	($2,181,310)	$4,030,832	$7,759,768	$36,293,642	$5,037,021	[illegible]
% Increase(Decrease)over PY	5.13%	21.36%	0.76%	4.41%	-2.06%	3.88%	7.19%	31.37%	3.31%	[illegible]

Chart 2



User fees, including fuel taxes and GVW fees, continue to be the primary source of highways funding nationwide. A number of states have augmented highways funding through sales taxes on motor fuels as well as establishing toll roads. The advantage of a sales tax on the purchase price or pump price of fuel, versus a tax on the number of gallons consumed, is that when fuel prices rise there is also a corollary rise in revenues generated, thus allowing for inflationary increases.

Chart 3



Highways financing is typically much more difficult for low population states, such as Montana, which spend significantly more per capita on highways expenditures. And although Montana has had one of the highest fuel tax rates in the nation for a number of years, the revenues generated have not kept pace with the level of expenditures. Montana has the highest rate of diesel fuel tax in the country at 27.75 cents per gallon, and also has the second highest gas tax at 27 cents per gallon (Connecticut is first with $0.37/gal. and Nebraska ties for second at $0.27/gal.).

Federal Aid Funds - ISTEA

Federal highway funds provide a significant portion of Montana's highway program funds. In 1991, the federal highway aid program was restructured under the Intermodal Surface Transportation Efficiency Act (ISTEA). The intent of the ISTEA was to move transportation policy away from the focus on the interstate highway system toward what is considered a more comprehensive approach that includes all modes of transportation, while giving states and local governments more flexibility in

determining transportation policy. The ISTEA was authorized for six years (fiscal 1992-1997), which provided for increased federal highways aid to the state, with annual federal authority during this period of approximately $168 million. Not only did the larger federal aid program require an increase in state matching funds but it also created a number of non-construction related set-aside programs. For example, a portion of federal highways funds are set-aside for specific purposes such as enhancement projects and safety programs. There has been some concern among agency staff that such provisions have the effect of diverting highway resources away from actual highway construction and maintenance and to highways-related or unrelated uses.

Reauthorization of the ISTEA (or authorization of a new federal transportation bill) will occur in October, 1997 at which time state funding levels will be established. Among other things, the funding formula by which highway funds are distributed to the states is currently at issue in Congress. The current formula favors Montana due to the geographic size of the state, the amount of federal lands in the state, and equity adjustments. Montana receives $2 of federal funding for every $1 contributed by Montanans. Several alternatives to the current federal funding formulas are under consideration, some of which would potentially provide roughly half of the federal highway aid received now. Although still tentative, a recent National Conference of State Legislatures (NCSL) report suggests that U.S. Transportation officials favor "fine-tuning" the ISTEA, with state funding apportionments and programs remaining essentially the same. It should be noted that MDT's budget projections and the cash flow analyses provided in Tables 1 and 2 are based on the assumption that federal aid to Montana will remain constant at an estimated level of $155 million annually, and with current match ratios.

Contributing Factors to HSRA Fund Balance Decline

Inelasticity of Highway User Fee Revenues

The most obvious key factor in the HSRA fund balance decline is the relatively inelastic revenue base which finances the state's highways program. Current fuel tax revenues are estimated to increase at approximately 1.0 percent each fiscal year which is disproportionately low compared to escalating expenditure levels and the conservative 3.0 percent inflationary rate upon which future expenditure levels are calculated. Unless there is an increase in fuel consumption, fuel tax collections will remain relatively flat. Conversely, in a period of economic growth and increased state tourism, fuel tax revenues will rise accordingly. The high growth rate in tourism and population growth which the state experienced in the late 80's and early 90's has leveled off. In the past, periodic rate increases in fuel taxes were instituted to bring revenues more in line with growing highways expenditures.

Other ancillary factors contributing to the structural imbalance in the HSRA account are discussed below.

Elimination/Reallocation of Non-User Fee Revenue Streams

The use of various non-user fee revenue sources in the 1980's compensated for the lack of a strong revenue base for the state's highways funding and delayed the inevitable cash flow problem which is now evident in the HSRA. (See Table 4, "Elimination of Non-User Fee Revenue Streams").

As Table 4 indicates, the bulk of non-user fee revenue sources have diminished as of fiscal 1996. These temporary revenue sources included a percentage of coal severance taxes, bond interest earnings, bond proceeds, mineral royalties, and a one-time capital injection from the general fund.

Table 4
Reduction in Non-User Fee Revenue Streams
Fiscal 1979 through 1999 Projected

Fiscal Year	Coal Tax	Interest Earnings	Mineral Royalties	General Fund	Bond Proceeds	Total
1979			$2.8			$2.8
1980			3.1			$3.1
1981			4.4			$4.4
1982			5.8	$22.0		$27.8
1983			6.9	2.0	$50.1	$59.0
1984		$3.6	9		39.0	$51.6
1985		10.5	8.9			$19.4
1986	$1.7	8.5	7.6			$17.8
1987	5.9	3.8			78.4	$88.1
1988	10.2	9.1				$19.3
1989	7.0	6.2				$13.2
1990	6.7					$6.7
1991	5.7					$5.7
1992	4.5					$4.5
1993	0.9					$0.9
1994	4.9					$4.9
1995	4.8					$4.8
1996						$0.0
1997						$0.0
1998						$0.0
1999						$0.0

* Note: Table does not include miscellaneous revenues which average $1 million annually.

Revenue bonds totaling $150 million (the maximum allowed by the state constitution) were issued in the 1980's, supporting an accelerated construction program during that period. The bond proceeds were fully expended by fiscal 1991. In June of 1995, the Department defeased $40 million in bonds. The current outstanding long-term indebtedness is $85 million (principal only). Debt service payments are scheduled through the end of fiscal 2003 at approximately $14 million annually.

Diversion of Fuel Tax Revenues - HB 2 Capped Fuel Tax Revenues

As a result of appropriation language inserted into HB 2, fuel tax revenues generated in the 1997 biennium in excess of the Revenue Oversight Committee's projections were to be distributed to local governments (counties and cities). The specific language follows:

"If the total net revenue from the fuel tax exceeds the revenue estimate established in House Joint Resolution No. 9, the department shall increase the urban and secondary appropriations included in item 2 by the amount the revenue estimate is exceeded, up to $15 million for the biennium. The increase must be divided on a 40 percent urban / 60 percent secondary basis."

This language had the effect of not allowing the HSRA fund balance to grow beyond revenue projections in the 1997 biennium. Instead, "excess" revenues were allocated to local governments to be distributed in the 1999 biennium, and which amount to $5.5 million in fiscal 1998 and $6.0 million in fiscal 1999. These distributions are in addition to the current annual local government allocation ($16.8 million) and which brings the total distributions to local governments to approximately $45 million in the 1999 biennium.

Reinsertion of this language into the next appropriations bill is not being proposed by the executive.

Increased Expenditure Level in RTF Program

In addition to the increases in highways spending required due to a larger federal aid program during the past several years, the authorized level of budgeted expenditures in the state-funded construction program, or Reconstruction Trust Fund (RTF) program, increased in the 1997 biennium. Expenditures in the RTF

program are projected to increase significantly, with the executive proposing $74 million in RTF expenditures in the 1999 biennium (excluding contractor payment reductions of 8.5 million).

The program was created by the Montana legislature in 1983 as a ten-year, 100 percent state funded program to address the inability of the federal aid programs to meet Montana's highway transportation needs. An annual $40 million program was authorized for ten years, but it was never funded at that level. The legislature allocated a percentage of the coal severance tax to partially fund the RTF for the term of the program. In 1991, the 52nd legislature extended the RTF program through July 1, 2003, with an annual authorization of $20 million. In 1993, the 53rd legislature reallocated the 12 percent of coal tax going to the RTF program to the state's long-range building program. This resulted in a $5 million annual reduction in revenue to the HSRA. In 1995, the 54th legislature approved a funding increase to the RTF program of $25 million in the 1997 biennium, bringing the authorized expenditure level of the program to $65 million.

Chart 4

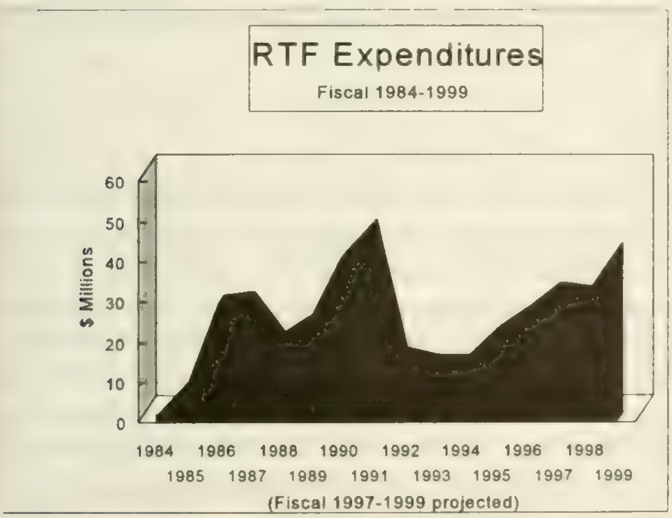


Chart 4 shows dramatic fluctuations in RTF expenditures since the program's inception. Actual expenditures from fiscal years 1984 through 1996 total $302 million. Budgeted expenditures in fiscal 1997, 1998, and 1999 total $107 million (with 12 percent contractor payment reductions included, total RTF expenditures decreases to $98 million).

Questions the legislature may want to ask the agency include:

1) What is the current assessment of the condition of Montana's highways? After more than a decade, what objectives has the RTF program accomplished and what are the most pressing needs of Montana's roads and highways system?

2) In view of federal-aid match requirements as well as a negative cash flow in the HSRA account, what is an appropriate expenditure level for the state-funded construction program (RTF) that will ensure the maximation of federal funds and continue to address Montana's long-term highway needs?

3) If federal aid to the state decreases significantly from projections, how will the state-funded program be impacted and what contingency plans does the department have if the worst case scenario occurs?

Funding Shifts

Prior to fiscal 1987, the Highway Patrol Division and Motor Vehicle Division of the Department of Justice were funded with both general fund and HSRA funds. Since that time, Department of Justice expenditures have grown. As part of his plan to maintain solvency in the HSRA through 2006, the executive proposed two years ago that these justice department programs be switched to general fund. Specifically, the executive proposed that the Motor Vehicle Division be switched to the general fund in fiscal 1996 and the Highway

Patrol Division in fiscal 1998. The 1995 legislature did not approve the executive's request regarding the change in funding for the Motor Vehicle Division.

The 1999 biennium budget request does not include any proposal to switch funding of the Highway Patrol Division to the general fund. However, the executive is proposing to switch $1,000,000 of HSRA funding of the Motor Vehicle Division to the general fund beginning in the 1999 biennium. As such, the cash flow tables reflect a reduction of $500,000 each fiscal year in the HSRA allocation to the Department of Justice beginning in fiscal 1998. The executive's 1999 biennium budget request for Department of Justice programs is $32.6 million.

Deficit Spending

As noted in Table 2, the executive budget request proposes an expenditure level which exceeds revenues by $33 million in the 1999 biennium. Expenditures are projected to exceed revenues by $16 million in fiscal 1996 and by $16.8 million in fiscal 1999. This pattern of deficit spending, which has occurred in previous biennia as well, is projected to continue into future biennia.

Summary

Various factors have contributed to the structural imbalance within the HSRA account. With projections of a declining fund balance and negative cash flow, the HSRA will move into a deficit position beginning in the year 2000 with a negative cash balance of $1.9 million and which grows to a negative $11.1 million by the end of the 2001 biennium. If the executive's funding switch proposal is not approved as previously discussed, the HSRA's fund balance will be further impacted. Deficit spending in the 1999 biennium will reduce the HSRA's fund balance by more than $30 million. Further, the reduced cash flow in this account may affect the department's ability to initiate certain projects, necessitating the use of some other start-up financing methods. And, although the department has indicated that they may resort to the use of short-term bonds to alleviate their cash flow problem, a reduced cash flow may ultimately inhibit the department's ability to maximize federal highways aid, which has been a long-standing department policy.

While the executive is proposing a budget that will leave a positive fund balance at the end of the 1999 biennium of $5.6 million, the budget proposal offers no intermediate or long-term strategy to address the HSRA fund's continued solvency. The executive proposal does not include any legislation that would increase fuel taxes, the HSRA's primary source of revenue.

Without a change in the level or mix of services provided by MDT, or an increase in revenues, the solvency of the HSRA is questionable and the state's future ability to effectively finance highway programs is uncertain.

Options

1) Reduce transportation expenditures in various programs in order to eliminate deficit spending in the 1999 biennium.

2) Fund the RTF program at a level which will reduce or eliminate the proposed imbalance between revenues and expenditures in the HSRA account in the 1999 biennium.

3) Increase revenues through a fuel tax increase. If this option were exercised, it is estimated that for every 1 cent increase in fuel taxes (both gas and diesel) $6.0 million in additional revenues would be generated annually.

4) Approve the executive's budget request as presented, deferring action on the HSRA fund balance issue to the 1999 legislature.

5401 00

Department of Transportation — **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	1,800.41	33.76	1,834.17	1,776.61	45.00	1,821.61	1,778.81	1,834.17
Personal Services	66,027,775	1,242,035	67,269,810	65,476,337	1,444,875	66,921,212	132,512,910	134,191,022
Operating Expenses	267,532,702	3,569,444	271,102,146	249,288,385	3,269,444	252,557,829	536,270,211	523,659,975
Equipment	1,875,711	1,088,860	2,964,571	1,477,028	377,232	1,854,260	4,050,023	4,818,831
Capital Projects	4,867,539	0	4,867,539	4,866,939	0	4,866,939	10,022,663	9,734,478
Local Assistance	250,000	0	250,000	250,000	0	250,000	499,800	500,000
Grants	3,641,184	4,000,596	7,641,780	3,411,577	4,000,596	7,412,173	9,102,685	15,053,953
Transfers	19,000	0	19,000	19,000	0	19,000	34,115	38,000
Debt Service	7,895	0	7,895	7,895	0	7,895	11,595	15,790
Total Costs	$344,221,806	$9,900,935	$354,122,741	$324,797,161	$9,092,147	$333,889,308	$692,504,002	$688,012,049
General Fund	250,000	0	250,000	250,000	0	250,000	499,800	500,000
State/Other Special	159,844,218	4,806,352	164,650,570	161,345,963	4,284,135	165,630,097	297,376,242	330,280,667
Federal Special	184,127,588	5,094,583	189,222,171	163,201,198	4,808,012	168,009,211	394,627,960	357,231,382
Total Funds	$344,221,806	$9,900,935	$354,122,741	$324,797,161	$9,092,147	$333,889,308	$692,504,002	$688,012,049

Agency Issue

Utilization of Federal Transportation Enhancement Project Funds (CTEP)

As part of the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991, 10 percent of federal Surface Transportation Program funds must be set-aside for projects relating to the Community Transportation Enhancement Program (CTEP). This amounts to approximately $5.3 million per fiscal year in set-aside funds for these types of projects, which totals more than $30 million during the 6-year authorization of ISTEA. The set-aside amount is not transferable to other agency uses. The match amount is 87/13 (federal match/grantee match) for most projects, and 80/20 for bicycle or pedestrian facility projects. Although the state has provided some hard matching funds for CTEP projects, it has generally been MDT's policy to pass-through or suballocate these federal grant funds to local governments, with local governments and/or the grantees providing either hard or soft matching funds. The CTEP program is administered through the department's Transportation Planning Division.

The broad federal guidelines for eligible enhancement projects are shown in Table 5.

Table 5
Transportation Enhancement Projects (CTEP)
Federal Eligibility Guidelines

- Facilities for pedestrians and bicycles;
- Acquisition of scenic easement and scenic or historic sites;
- Scenic or historic highway programs;
- Landscaping and other scenic beautification;
- Historic preservation;
- Rehabilitation and operation of historic transportation buildings, structures, or facilities including historic railroad facilities and canals;
- Preservation of abandoned railway corridors including the conversion and use thereof for pedestrian and bicycle trails;
- Control or removal of outdoor advertising;
- Archeological planning and research;
- Mitigation of water pollution due to highway runoff;

Since the ISTEA 6-year authorization began in 1992, a total of 241 enhancement projects have been completed or are underway in the state. Of the more than $30 million in federal-aid funds designated for this purpose over the 6-year authorization period, approximately $5 million has been utilized. (see Table 6 "Expenditure Summary"). Department officials indicate that the unexpended federal authority, totaling over $20 million, has been "obligated" by the department and thus allows the state to access these funds for future CTEP project use.

With the pending reauthorization of the ISTEA, it is not certain whether the enhancements set-aside program will continue to be a part of the forthcoming federal highways funding package in 1998 and beyond. Reauthorization programs will not be fully developed until federal highways funding distribution issues are resolved. However, if the ISTEA is only "fine-tuned" or modified somewhat, the bulk of the programs and funding apportionments may continue essentially as they are.

With a declining fund balance in the Highways Special Revenue Account, MDT is likely to continue their policy of not providing the hard match for various enhancement projects and suballocating the federal grant monies to local governments as well as administering the program. MDT officials have expressed concern that federal set-aside provisions, such as the CTEP program, divert resources away from their prime goal of highways construction and maintenance. However, local governments, also in the position of operating within tight budgetary constraints, may also lack available matching funds to obtain federal CTEP funds.

Table 6
Transportation Enhancement Projects
Expenditure Summary
Fiscal 1992-1997*

	Federal	State	Local
1992	-	-	-
1993	-	-	-
1994	$299,000	$47,000	-
1995	788,000	69,000	-
1996	3,052,000	220,000	206,000
1st Qtr 1997	910,000	86,000	263,000
Total	$5,049,000	$422,000	$469,000

Note: Figures provided by MDT and are rounded.

CTEP Program & State Tourism Objectives

Based upon the criteria established for the enhancement projects, it would appear that these types of projects would benefit state tourism promotion objectives as well as address certain quality of life issues. As such, depending upon the demand from local governments for these types of enhancement projects and the federal dollars available, the legislature may want to consider funding the hard match with an appropriate source of state special revenues.

For example, lodging facility use tax revenues currently support Travel Montana (the state's travel and tourism program), the Montana Historical Society, state parks facilities maintenance, etc. By leveraging this revenue source, the state could maximize the use of significant federal funds for enhancement projects involving various infrastructure improvements. And with infrastructure improvements a current use of Travel Montana funds, it would appear to be an appropriate use of bed tax revenues. Based on a match ratio of 14/86, a state match of approximately $800,000 would bring $5,000,000 federal dollars into the state annually.

The legislature may also wish to investigate the feasibility of purchasing Nevada City/Virginia City with current unused federal CTEP authority. It would appear that these historic towns would qualify under at least two key eligibility criterion including: 1) acquisition of historic sites, and 2) historic preservation.

In view of the fact that over $20 million still exists in unexpended federal set-aside funds, the legislature may wish to consider the following options:

1) Investigate the feasibility of maximizing federal matching funds from the CTEP program to purchase or assist in the purchase of Nevada City/Virginia City.

2) Appropriate a portion of annual bed tax revenues to the Department of Transportation as state matching funds for approved enhancement projects which support tourism infrastructure improvements or quality of life measures in the state.

3) Recommend that the Department of Transportation and Travel Montana of the Department of Commerce coordinate to ensure federal transportation funds for enhancement projects within the state are maximized.

4) If pending legislation passes which de-earmarks bed tax revenues to the general fund, provide for an annual appropriation from the general fund to MDT for transportation enhancement projects.

5) Take no action.

5401 01

Department of Transportation — **General Operations Program**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	136.27	0.00	6.00	142.27	0.00	8.00	144.27	142.27
Personal Services	4,769,131	114,451	198,841	5,082,423	125,075	265,123	5,159,329	10,241,752
Operating Expenses	4,409,322	1,435,027	492,393	6,336,742	1,417,677	492,393	6,319,392	12,656,134
Equipment	643,022	172,516	196,000	1,011,538	89,516	196,000	928,538	1,940,076
Grants	0	75,000	0	75,000	75,000	0	75,000	150,000
Debt Service	2,177	23	0	2,200	23	0	2,200	4,400
Total Costs	$9,823,652	$1,797,017	$887,234	$12,507,903	$1,707,291	$953,516	$12,484,459	$24,992,362
State/Other Special	9,617,894	1,616,001	870,204	12,104,099	1,527,564	930,810	12,076,268	24,180,368
Federal Special	205,758	181,016	17,030	403,804	179,727	22,706	408,191	811,994
Total Funds	$9,823,652	$1,797,017	$887,234	$12,507,903	$1,707,291	$953,516	$12,484,459	$24,992,362

Program Description

The General Operations Program provides the administrative support services for the department, including general administration and management, accounting and budgeting, public affairs, computer systems support, personnel, and administration of motor fuel taxes. General operations is mandated and/or governed by more than 40 state and federal laws and mandates, the most significant of which are listed in the Governor's Budget Volume 8.

Funding

Funding for general operations is primarily from highway special revenues. Federal Highway Administration funding is available for certain program functions, primarily the Civil Rights Bureau, Safety and Training Bureau, and public information functions.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5401 01

Department of Transportation — Present Law Adjustments/Issues

General Operations Program

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	133,545	143,855
02		Inflation/Deflation	(101,126)	(143,532)
03		Fixed Costs	477,252	608,106
		Total Statewide Adjustments	$509,671	$608,429
Significant Present Law Adjustments				
04	79199	Pcs, Servers, & Media Storage	25,930	17,930
05	91001	Overtime & Differential Pay	(19,094)	(18,780)
06	91002	Computer System Applications	375,000	375,000
07	91003	Technical Training	164,112	164,112
08	91004	Maintenance Contract	108,530	108,530
09	91005	Dyed Fuel Lab Testing	74,053	74,053
10	91006	Highway Maps	65,001	(64,999)
11	91007	Leased Copiers	41,280	41,280
12	91008	Commission Meeting Notices	37,800	37,800
13	91015	Compliance Review - Contracted	109,000	109,000
14	91020	Replace Bindery Equipment	71,586	71,586
		Total Significant PL Adjustments	$1,053,198	$915,512
Other Base Adjustments			$234,148	$183,350
		Grand Total Present Law Adjustments	$1,797,017	$1,707,291

LFD Comment **- Current level operating costs in the Operations Program increase by 33 percent in the 1999 biennium. A large portion of the increase is attributable to the request for contracted services for additional computer systems applications. The department has a number of new and ongoing information systems being developed, under the purview of the Information Services Bureau within the program. Some of these systems relate to the various highway information systems which are mandated by the ISTEA federal transportation bill, while others are not. The aggregate of Operations Program present law adjustments in the 1999 biennium, totaling $3,504,308, are funded with 90 percent state highway special revenue and 10 percent federal funds. The total proposed budget for this program in the 1999 biennium is funded with 97 percent state highway funds and 3 percent federal funds.**

LFD Issue **- In view of a declining fund balance and a reduced construction program from the last biennium, 33 percent growth in overhead expenditures is a disturbing trend. The legislature may wish to request detailed justification for this level of increase in both present law adjustments and new proposals presented below for overhead items.**

4) PCS, Servers, & Media Storage - The net increase in replacement computer equipment is $25,930 in fiscal 1998 and consists of $616,562 in highways special revenue and $19,488 in federal highway administration funds for the replacement of the VAX terminals with personal computers, replacement of older personal computers that are not compatible with current software and applications, associated replacement and expansion of network server capacity for headquarters, district, and area offices, and expansion of storage capacity. The net increase in fiscal 1999 is $17,930 and consists of $608,562 in highways special revenue and $19,488 in federal special revenue for continuation of the replacement cycle.

5) Overtime and Differential Pay - The net decrease below the base year of $19,094 in fiscal 1998 in highways special revenue is due to a reduced level of overtime and differential pay. Differential pay is requested to compensate staff for filling in and taking over duties until vacant positions are filled. The similar decrease is $18,780 in fiscal 1999.

6) Computer System Applications - The increase of $375,000 each year in highways special revenue will be used to purchase contracted services for additional computer systems applications.

7) Technical Training - The increase of $164,112 each year includes $104,209 in federal highways administration funds for the annualization of base year expenditures for the purchase of consultant services to provide technical training in the areas of construction, accounting, and office management. The remainder of the increase consists of $59,903 in highways special revenue for training in personnel issues, professional technical workshops, and computer and network applications.

8) Maintenance Contract - The increase of $108,530 in highways special revenue each year represents the annualization of a full service maintenance contract for the Xerox 135 Docutech and 5390 Xerox high volume copiers.

9) Dyed Fuel Lab Testing - The increase of $74,053 in highways special revenue each year is for an increased level of contracted service payments to the Department of Public Health and Human Services for laboratory testing of dyed fuel samples.

10) Highway Maps - The increase of $65,001 in fiscal 1998 in highways special revenue is for the purchase of Montana highway maps through a contract with Travel Montana in the Department of Commerce. The acquisitions occur primarily in the first year of the biennium. Accordingly, there is a decrease of $64,999 below the base year in fiscal 1999. This item is recommended as a biennial appropriation.

11) Leased Copiers - The increase of $41,280 each year is to meet the costs of a new lease agreement for engineering scale copiers that are not in the base year expenditures. Funding is from highways special revenue.

12) Commission Meeting Notices - The increase of $37,800 each year in highways special revenue is for publishing notices of upcoming Montana Transportation Commission meetings in newspapers statewide.

13) Compliance Review-Contracted - The Executive Budget adds $109,000 each year in highways special revenue funds to continue the process of contracting for specific audit activities to reduce existing backlogs of audits. Compliance review provides an ongoing assurance that federal and state funds expended for utility relocation and professional highway consultants are being used properly. This recommendation will provide the resources for the department compliance review section to meet the legal and operational requirements for the International Fuel Tax Agreement (IFTA) and International Registration Program (IRP).

14) Replace Bindery Equipment - The increase of $71,586 each year in highways special revenue is to maintain the productivity of the new Xerox Docutech publishing system by replacing two pieces of support equipment, the hole drill and power paper cutter, with updated units that have more capability and capacity.

Other Base Adjustments - Several relatively small increases and decreases from the base year comprise the net amounts in other base adjustments.

5401 01
Department of Transportation — **General Operations Program**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Road Report Fte	0.75		21,287	21,287	1.00		28,382	28,382
02	Edp And Performance Auditors	0.75		88,863	88,863	1.00		95,970	95,970
03	Motor Fuel Tax Audits			90,850	90,850			90,850	90,850
04	Tribal And Intergovernmental	0.75		35,689	35,689	1.00		47,586	47,586
05	It Equipment And Support - Sta	1.50		575,931	575,931	2.00		591,243	591,243
06	Central Rev Collection(Ag Fuel)								
07	Management Information Systems	2.25		74,614	74,614	3.00		99,485	99,485
	Total For New Proposals	6.00		$887,234	$887,234	8.00		$953,516	$953,516

Executive New Proposals

LFD Comment **- As in the present law adjustments for this program, the largest portion of new proposals relates to computer systems requests (#5 and #6). These two new proposals request additional FTE and funds for management information systems development and also staff to provide computer training and assistance to departmental staff. The aggregate of new proposal requests, totaling $1,840,785 in the 1999 biennium, are funded with 98 percent state highways special revenue and 2 percent federal funds.**

1) Road Report FTE - The Executive Budget recommends 0.75 FTE and $4,257 in highways special revenue and $17,030 in federal highway administration funds in fiscal 1998 and 1.00 FTE and $5,676 in highways special revenue and $22,706 in federal highway administration funds in fiscal 1999 for the department winter road report and summer construction

reporting functions. The functions currently operate seven days-a-week with part-time, private temporary employees covering early and late reports, weekends, holidays, and much of the routine reporting requirements. The FTE will provide continuity and reliability for the information provided to the traveling public on current road conditions.

2) EDP and Performance Auditors - The Executive Budget recommends 0.75 FTE and $88,863 in fiscal 1998 and 1.00 FTE and $95,970 in fiscal 1999 in highways special revenue funds to establish an electronic data processing (EDP)/automated systems audit position to provide internal, external, and motor fuel tax audit support for complex, diverse, and unique automated accounting and financial systems.

3) Motor Fuel Tax Audits - The Executive Budget recommends $90,850 each year in highways special revenue funds to continue emphasis on contracted internal, consultant, and utility audits. The department intends to continue and enhance a successful audit effort begun in the 1995 biennium that produced an excellent International Fuel Tax Agreement (IFTA) PEER review and several innovative projects that received national recognition in the area of motor fuel tax law enforcement. In fiscal 1995 the department compliance review section conducted 321 audits. This is compared to 195 in fiscal 1994 and 55 in fiscal 1993. The audit emphasis will focus on more complex and financially-significant audits with goals to increase compliance with motor fuel tax laws, collect the proper amount of motor fuel tax revenue, protect consumers from fraud and tax evasion, protect the resources of the state, assist management in financial compliance and planning, and provide a fair and equitable system for contractors and distributors in Montana.

4) Tribal and Intergovernmental - The Executive Budget recommends 0.75 FTE and $35,689 in fiscal 1998 and 1.00 FTE and $47,586 in fiscal 1999 in highways special revenue funds for an FTE to represent the department and coordinate transportation planning and project development activities with tribal governments. The department has several construction and highway maintenance activities that impact tribal governments. This position will ensure that the department is in legal compliance with keeping tribes informed and will assist in maintaining working relationships with tribal governments.

5) IT Equipment and Support - The Executive Budget recommends 1.50 FTE and $575,931 in fiscal 1998 and 2.00 FTE and $591,243 in fiscal 1999 in highways special revenue funds to continue expansion of the department computer systems and networks. The new FTE will be utilized to provide assistance and training to department staff. Included is $350,000 each year to contract for additional support requirements for remote computer software installations, hardware upgrades, systems support, and network support, and $180,000 each year for the acquisition of new software.

6) Management Information Systems - The Executive Budget recommends 2.25 FTE and $74,614 in fiscal 1998 and 3.00 FTE and $99,485 in fiscal 1999 highways special revenue funds to continue the development and support of information systems related to the department transportation information system (TIS), Intermodal Surface Transportation Efficiency Act (ISTEA) management systems, and roadway imaging systems. Phase two of the base TIS system has been completed, with phases three and four scheduled for completion in July, 1997. Once the base TIS system is completed, the department will have replaced the legacy (mainframe-based) system with a client/server Oracle-based system.

Executive Language Recommendation

The executive recommends the following language be included in HB 2:

> "In the event the department enters into a contract for revenue sharing, it is authorized to request authority to distribute the vendor's share of revenue per the agreement. The amount of authority which may be requested cannot exceed $1,400,000 for the biennium."

"The appropriation in item x for highway maps is a biennial appropriation."

LFD Issue **- In order to receive additional authority during the interim, the department must receive either a budget amendment or authority to expend funds in the first year that were appropriated in the second year (which does not increase overall authority). This language does not appear to meet budget amendment statutory criteria. The department cannot receive additional authority in the interim through this language, as it conflicts with substantive law. If the legislature desires that the department have this additional authority, it can authorize an appropriation and restrict its use to this purpose.**

5401 02 Department of Transportation Program Proposed Budget				Construction Program				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	881.03	21.60	6.00	908.63	(2.20)	8.00	886.83	908.63
Personal Services	30,309,670	2,362,994	189,875	32,862,539	1,722,780	253,166	32,285,616	65,148,155
Operating Expenses	192,328,346	25,759,752	709,987	218,798,085	7,880,262	709,987	200,918,595	419,716,680
Equipment	867,572	(206,297)	322,300	983,575	(308,347)	81,345	640,570	1,624,145
Capital Projects	4,139,315	628,224	0	4,767,539	627,624	0	4,766,939	9,534,478
Grants	160,864	(50,864)	0	110,000	(50,864)	0	110,000	220,000
Debt Service	2,836	2,859	0	5,695	2,859	0	5,695	11,390
Total Costs	$227,808,603	$28,496,668	$1,222,162	$257,527,433	$9,874,314	$1,044,498	$238,727,415	$496,254,848
State/Other Special	62,733,248	15,519,388	556,420	78,809,056	17,581,849	341,409	80,656,506	159,465,562
Federal Special	165,075,355	12,977,280	665,742	178,718,377	(7,707,535)	703,089	158,070,909	336,789,286
Total Funds	$227,808,603	$28,496,668	$1,222,162	$257,527,433	$9,874,314	$1,044,498	$238,727,415	$496,254,848

Program Description

The Construction Program is responsible for construction project planning and development from the time a project is included in the long-range work plan through the actual construction of the project. Program responsibilities include such tasks as project design, right-of-way acquisitions, issuing contract bids, awarding contracts, and administering construction contracts. Contract administration is the supervision of highway construction projects from the time the contract is awarded to a private contractor until the project is completed and the work approved as meeting established construction standards. The Construction Program is mandated and/or governed by 60-2-201, MCA, and 23 USC 114.

Funding

The federal-aid construction program, including preconstruction, is funded with highway state special revenues and matching federal highway administration grants, at an average federal match rate of approximately 86 percent. The 100 percent state-funded reconstruction trust program is funded with highway special revenues.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table

5401 02 Department of Transportation Construction Program			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	1,502,741	1,557,299
02		Inflation/Deflation	35,895	26,478
03		Fixed Costs	7,122	7,122
		Total Statewide Adjustments	$1,545,758	$1,590,899
Significant Present Law Adjustments				
04	79199	Replacement Equipment Pc'S	191,325	121,125
05	91001	Construction Workload	25,927,145	8,363,075
06	91002	Permanent Aggregate Positions	166,009	41,326
07	91003	Overtime/Differential/Per Diem	226,611	210,987
08	91035	Replacement Equipment	(160,736)	(192,586)
09	91999	Cms Fte Adjustment	448,074	(385,654)
		Total Significant PL Adjustments	$26,798,428	$8,158,273
Other Base Adjustments			$152,482	$125,142
		Grand Total Present Law Adjustments	$28,496,668	$9,874,314

correspond to the narrative descriptions.

4) Replacement Equipment PCS - The increases of $191,325 in fiscal 1998 and $121,125 in fiscal 1999 from highways special revenue funds for the Construction Program is to replace 110 personal computers and printers throughout the program including field offices.

5) Construction Workload - The present law increases of $6,544,011 in highways special revenue and $19,383,134 in federal highways administration funds in fiscal 1998 and $2,287,301 in highways special revenue and $6,075,774 in federal highways administration funds in fiscal 1999 is for increased highway construction activities. The increase corresponds to construction project activities projected by the MDOT Project Cost Scheduling System which used engineers' estimates, work-type, and let dates for each project to arrive at the anticipated fiscal expenditure. Significant contributors to the fiscal 1998 increase are contractor payments ($20,607,523) and the Community Transportation Enhancement Program ($2,210,556). Significant contributors to the fiscal 1999 increase are contractor payments ($3,522,600) and the Community Transportation Enhancement Program ($2,085,414). The rest of the increases are comprised of operating expenditures directly related to contractor payment activities and projected land expenditures for projects in the development phase such as land acquisition, right-of-way, and condemnation activities. The amounts requested for contractor payments were reduced by 12 percent to correlate with the average reversion percentage history over the past three fiscal years.

LFD Comments **- Two comments are made with regard to this adjustment:**

> **1) The agency has reduced its planned contractor payments in the 1999 biennium by 12 percent. The agency indicates that due to normal construction project scheduling delays, payments to contractors over the last three years have been 12 percent less than budgeted. As such, the department is now reducing their construction budget to reflect actual expenditures. In view of the declining fund balance and negative cash flow in the Highways Special Revenue Account, it would appear that MDT is streamlining its 1999 biennium budget through this method. The 12 percent contractor payment reductions total $7,139,936 in fiscal 1998 and $7,404,235 in fiscal 1999. It should be noted that these reductions are not intended to mean that the awarded construction contracts will be reduced by 12 percent.**
>
> **2) The executive requests a total of $4,295,970 in the 1999 biennium for Transportation Enhancement projects. These amounts are based on split funding of 80/20, federal to state funds, with total federal authority requested in the 1999 biennium of $3,436,776 and state special revenue authority of $859,194. There is also an FTE being requested for the CTEP program, which is discussed in executive new proposals .**

6) Permanent Aggregate Positions - The increase of $95,140 in highways special revenue and $70,869 in federal funds in fiscal 1998 is due to a net adjustment in the total funding of permanent aggregate positions. The executive budget system personal services "snapshot" computes the budgeted amount for aggregate FTE based upon the pay level for the last person employed in the aggregate position. The net adjustment is based upon the difference between the amount calculated by the department's consolidated manpower estimating system and the amount calculated for the personal services snapshot. The increase in fiscal 1999 consists of $23,663 in highways special revenue and $17,663 in federal funds.

7) Overtime/Differential/Per Diem - The net increase of $129,871 in highways special revenue and $96,740 in federal highway administration funds in fiscal 1998 is based upon projected overtime expenditures related to project cost scheduling, historical averages for differential pay, and 1997 budgeted levels for Transportation Commission members per diem. The increase for fiscal 1999 is composed of $120,811 from highways special revenue and $90,176 in federal funds.

8) Replacement Equipment - Replacement equipment for fiscal 1998 is a net reduction of $160,736 from the base in highways special revenue. The total recommended replacement equipment is $469,950 and includes Computer Aided Drafting and Design (CADD) equipment such as plotters and disk storage in the amount of $26,400, laboratory, and field office equipment including meters, ovens, specialized gauges, and survey items for conducting soil testing and mix evaluation in the amount of $251,050, and 11 compactors for the Strategic Highway Research Program (SHRP) in the amount of $192,500 to compact plant mix specimens. Replacement equipment for fiscal 1999 is a net reduction of $192,586 from the base and includes $96,200 for CADD equipment and $341,900 for the continuing replacement of other equipment similar to fiscal 1998.

9) CMS FTE Adjustment - The recommended present law adjustment generated by the department construction management system (CMS) is an increase of 20.60 FTE and $113,497 in highways special revenue and $334,577 in federal highway administration funds in fiscal 1998. The CMS uses the tentative construction schedule to determine staffing needs. The tentative construction schedule also is used as a source document for the project cost scheduling that creates the contractor payment estimates. The associated operating expenditures are a function of the projected personal services expenditures. The department historically has been authorized by the legislature to make such adjustments to the present law budget. The recommended adjustment is a decrease of 3.20 FTE and $111,261 in highways special revenue and $274,393 in federal funds in fiscal 1999.

Other Base Adjustments - Several relatively small increases and decreases from the base year comprise the net increases in other base adjustments.

5401 02
Department of Transportation **Construction Program**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Pavement Management System			194,480	194,480			194,480	194,480
02 Cadd Fte: Training And User Adjustment	1.50		61,731	61,731	2.00		78,338	78,338
03 Shrp Binder Testing/Superpave			157,949	157,949			157,949	157,949
04 Fte Funding- Civil Engineer Sp	0.75		125,314	125,314	1.00		132,990	132,990
05 Seismic Analysis & Retrofit Of	0.75		109,474	109,474	1.00		117,150	117,150
06 Pavement Skid Profile			26,775	26,775			26,775	26,775
07 Civil Engineer For Constructio			43,613	43,613			43,613	43,613
08 New Equipment - General			122,500	122,500			40,795	40,795
09 Community Transportation Enhan	0.75		26,865	26,865	1.00		35,169	35,169
10 Shrp New Equipment			78,500	78,500				
11 Fte - Environmental Impact Spe	0.75		23,028	23,028	1.00		30,704	30,704
12 Fte - Project Biologist	0.75		23,028	23,028	1.00		30,704	30,704
13 Fte - Civil Engineer Specialis	0.75		23,028	23,028	1.00		30,704	30,704
14 Core Drill Hazardous Materials			84,577	84,577			84,577	84,577
15 Construction Bureau Software			60,000	60,000			22,000	22,000
16 Pcs/Software			61,300	61,300			18,550	18,550
Total For New Proposals	6.00		$1,222,162	$1,222,162	8.00		$1,044,498	$1,044,498

Executive New Proposals

LFD Comment **- The executive's budget request includes 16 new proposals in the construction program totaling $2.27 million in the 1999 biennium. Table 7 categorizes the new proposals as follows: 1) new FTE; 2) consulting/contracted services; 3) equipment, and 4) computer software. The table provides the funding split between state special revenue and federal funds. In aggregate, 40 percent of the new proposals requested by the executive are funded with state special revenue and 60 percent with federal highway funds.**

Table 7
Construction New Proposals
Grouped by Category
1999 Biennium Funding Totals

	State	Federal	Total
FTE (8)	$281,703	$566,524	$848,227
Consulting/Contracted Services	212,484	802,304	1,014,788
Equipment	241,795	0	241,795
Computer Software	161,850	0	161,850
	$897,832	$1,368,828	$2,266,660

1) Pavement Management System - The Executive Budget recommends an increase of $38,896 in highways special revenue and $155,584 in federal funds each year for consultant services to adjust to the changes in the current pavement management system (PMS). These system improvements, which are required by the Federal Highway Administration (FHWA) and the Intermodal Surface Transportation Efficiency Act

(ISTEA), reflect new software and analysis techniques and an increased workload. The improved PMS will allow the department to make better, more timely decisions concerning repair and rehabilitation of the state roadway system.

2) CADD FTE: Training and User Adjustment - The Executive Budget recommends 1.50 FTE and $61,731 in highways special revenue in fiscal 1998 and 2.00 FTE and $78,338 in highways special revenue in fiscal 1999 to provide training and user support to Computer Aided Design and Drafting (CADD) operators in the department. The support staff will help to maximize production potential and minimize down time of the CADD system.

3) SHRP Binder Testing/Superpave - The Executive Budget recommends $37,933 in highways special revenue and $120,016 in federal highway administration funds each year for consultant services to accomplish the Strategic Highway Research Program (SHRP) pavement binder testing and superpave functions. As the department moves closer to adopting the SHRP performance graded binder specifications and the superpave method of mix design, these improvements will result in more complex testing with additional time and effort required to prepare for the testing.

4) FTE Funding-Civil Engineer Specialist - The Executive Budget recommends 0.75 FTE and $25,063 in highways special revenue and $100,251 in federal funds in fiscal 1998 and 1.00 FTE and $26,598 in highways special revenue and $106,392 in federal funds in fiscal 1999 for a civil engineer specialist necessary to meet ongoing requirements of the Montana Pollutant Discharge Elimination System (MPDES) stormwater discharge general permit functions. This position will be responsible for coordinating, reviewing, and submitting plans and applications for each highway project requiring an MPDES permit, estimated at 50 projects per year. The FTE also will review and evaluate projects statewide to ensure erosion control strategies are appropriate and effective.

5) Seismic Analysis & Retrofit of Highway Bridges - The Executive Budget recommends 0.75 FTE and $21,895 in highways special revenue and $87,579 in federal funds in fiscal 1998 and 1.00 FTE and $23,430 in highways special revenue and $93,720 in federal funds in fiscal 1999 for an FTE and contract services to implement a program mandated by section 6005 of the Intermodal Surface Transportation Efficiency Act (ISTEA). The purpose of the program is to perform seismic analysis on existing bridges that are at risk and to apply current seismic design standards to new bridges. Approximately 731 structures have been identified as needing further analysis for seismic retrofit.

LFD Comment **- The contracted services portion of the above request comprises the bulk of requested funding at $86,286 annually.**

6) Pavement Skid Profile - The Executive Budget recommends $6,959 in highways special revenue and $19,816 in federal funds each year for consultant services to perform skid testing of pavements and construction project profile acceptance testing.

7) Civil Engineer for Construction - The Executive Budget recommends $5,539 in highways special revenue and $38,074 in federal highways administration funds each year for consultant services as part of the new commitment to quality on highways projects in Montana. This position will coordinate the "partnering" workshops routinely held on construction projects statewide. The partnering process requires monthly evaluations and meetings to resolve conflicts and problems at the lowest possible level. The consultant will monitor and measure the effectiveness of these meetings, assist when required, and coordinate and write recommendations for all value engineering proposals submitted as part of the "partnering" process and on other projects.

8) New Equipment - General - The Executive Budget recommends $122,500 in highways special revenue in fiscal 1998 and $40,795 in highways special revenue in fiscal 1999 for new equipment for traffic data collection, core drilling, field survey mapping, and laboratory instruments.

9) Community Transportation Enhancement - The Executive Budget recommends 0.75 FTE and $5,373 in highways special revenue and $21,492 in federal funds in fiscal 1998 and 1.00 FTE and $7,034 in highways special revenue and $28,135 in federal funds in fiscal 1999 for the final design and construction phase of an Intermodal Surface Transportation Efficiency Act (ISTEA) mandated community transportation enhancement program.

10) SHRP New Equipment - The Executive Budget recommends $78,500 in highways special revenue in fiscal 1998 for new equipment to upgrade the testing capabilities in the Strategic Highway Research Program (SHRP). The equipment list includes two rheometers, a laboratory balance, and an oven for pavement binder and plant mix testing.

11) FTE - Environmental Impact Specialist - The Executive Budget recommends 0.75 FTE and $4,606 in highways special revenue and $18,422 in federal funds in fiscal 1998 and 1.00 FTE and $6,141 in highways special revenue and $24,563 in federal funds in fiscal 1999 for an environmental impact specialist to provide for required wetland mitigation statewide for over 200 acres of existing and proposed impacts resulting from past and future highway construction projects. Mitigation is a statutory requirement under section 404 of the Clean Water Act permit process and this FTE will coordinate and develop acceptable mitigation site surveys, plans, construction bid packages, easement agreements and monitoring reports. The FTE will work with state and federal agencies and the tribes to develop statewide cost-effective and coordinated mitigation for highway construction projects.

12) FTE - Project Biologist - The Executive Budget recommends .75 FTE and $4,606 in highways special revenue and $18,422 in federal funds in fiscal 1998 and 1.00 FTE and $6,141 in highways special revenue and $24,563 in federal funds in fiscal 1999 for a biologist to complete project biological work activities identified by the preconstruction management system (PMS). Maintenance activities that affect the natural environment must be evaluated and meet conditions under the authority of state and federal water quality and wildlife rules and regulations and Federal Highway Administration (FHWA) environmental concurrence. FHWA concurrence is required as a condition of federal-aid funding before project utility relocations and project right-of-way acquisition can be authorized to proceed.

13) FTE - Civil Engineer Specialist - The Executive Budget recommends 0.75 FTE and $4,606 in highways special revenue and $18,422 in federal funds in fiscal 1998 and 1.00 FTE and $6,141 in highways special revenue and $24,563 in federal funds in fiscal 1999 to address the shortage of environmental engineers needed to complete project work activities identified by the preconstruction management system.

14) Core Drill Hazardous Materials - The Executive Budget recommends $16,915 in highways special revenue and $67,662 in federal funds each year for contracted services for a third core drill crew. The third crew will respond to the growing demand for hazardous material investigations that are required to be performed on MDOT property and proposed new roadway alignments. The crew will also be used to supplement the current core drill unit to work on preconstruction and construction investigations to ensure the department reconstruction projects are kept on schedule and construction projects are let on time.

15) Construction Bureau Software - The Executive Budget recommends $60,000 in highways special revenue in fiscal 1998 and $22,000 in highways special revenue in fiscal 1999 for the purchase of specialized surveying software to support the Construction Bureau.

16) Construction Bureau PCs/Software - The Executive Budget recommends $61,300 in highways special revenue in fiscal 1998 and $18,550 in highways special revenue in fiscal 1999 for the purchase of 21 new personal computers and special software to support the Construction Bureau.

Executive Language Recommendation

The executive recommends the following language be included in HB 2:

> "The department may adjust appropriations in the construction and transportation planning programs between state special and federal special revenue fund types, provided the total state special revenue authority for these programs is not increased by more than 10% of the total appropriations established by the legislature for each program. All transfers between fund types must be fully explained and justified on budget documents submitted to the office of budget and program planning, and all fund transfers of more than $1 million in any 30-day period must be communicated to the legislative finance committee in a written report.
>
> "The department may adjust appropriations and FTE in the construction and maintenance programs between fiscal years to reflect actual expenditures related to the construction work plan."

LFD Issue **- The last section of language that the executive has recommended, involving appropriation adjustments "between fiscal years", is not currently allowable under Montana law. Designating the associated appropriations as biennial appropriations would allow for changes between fiscal years.**

5401 03 Department of Transportation Program Proposed Budget					Maintenance Program			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	578.93	0.00	20.26	599.19	0.00	27.00	605.93	599.19
Personal Services	23,065,542	(573,555)	810,103	23,302,090	(509,487)	868,964	23,425,019	46,727,109
Operating Expenses	33,991,606	7,068,460	2,419,164	43,479,230	6,938,639	2,119,164	43,049,409	86,528,639
Equipment	531,629	(264,516)	120,560	387,673	(393,538)	79,887	217,978	605,651
Capital Projects	33,179	66,821	0	100,000	66,821	0	100,000	200,000
Total Costs	$57,621,956	$6,297,210	$3,349,827	$67,268,993	$6,102,435	$3,068,015	$66,792,406	$134,061,399
State/Other Special	57,621,956	6,297,210	3,349,827	67,268,993	6,102,435	3,068,015	66,792,406	134,061,399
Total Funds	$57,621,956	$6,297,210	$3,349,827	$67,268,993	$6,102,435	$3,068,015	$66,792,406	$134,061,399

Program Description

The Maintenance Program is responsible for preserving and maintaining a safe and environmentally-sound state highway transportation system and its related facilities. Major maintenance activities include the patching, repair, and periodic sealing of highway surfaces, snow removal, and sanding. Maintenance is mandated and/or governed by 60-2-203, MCA, and 23 USC 116.

Funding

The Maintenance Program is funded 100 percent with state highway special revenues derived from highway user fees including fuel taxes and GVW fees. In the 1999 biennium, gas taxes comprise approximately 62 percent of state highway special revenues, diesel taxes comprise 24 percent, and GVW fees 14 percent.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5401 03 Department of Transportation Maintenance Program			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(276,115)	(215,594)
02		Inflation/Deflation	494,349	772,858
03		Fixed Costs	(130)	(130)
		Total Statewide Adjustments	$218,104	$557,134
Significant Present Law Adjustments				
04	91100	Overtime & Differential Pay	(297,440)	(293,893)
05	91102	Contract Adjustments	115,354	169,586
06	91123	Weed Control	176,019	176,019
07	91130	Roadways Contractor Payments	2,611,817	2,402,055
08	91135	Consulting & Professional Services	36,916	36,916
09	91240	Inspection Field Equipment	49,693	49,693
10	91300	Replacement Equipment	(262,462)	(391,484)
11	91386	Telephone Usage For Weather Stations	38,600	38,600
12	91400	Land Acquisition	66,821	66,821
13	91537	Equipment Assigned Time & Usage	1,451,242	1,495,021
14	91601	Utilities Increases	54,269	61,890
15	91727	Maintenance Materials & Stockpiles	2,011,501	1,604,881
16	91750	Contracted Maintenance Requirements	44,761	61,399
		Total Significant PL Adjustments	$6,097,091	$5,477,504
Other Base Adjustments			($17,985)	$67,797
		Grand Total Present Law Adjustments	$6,297,210	$6,102,435

4) <u>Overtime & Differential Pay</u> - The net decrease below the base year of $297,440 in fiscal 1998 and $293,893 in fiscal 1999 is due to a net reduced level of overtime and differential pay. Differential pay is requested to compensate staff for filling in and taking over duties until vacant positions are filled.

5) <u>Contract Adjustments</u> - The Executive Budget adds $115,354 in fiscal 1998 and $169,586 in fiscal 1999 for changes in contracted services costs for the following contracts: rest areas; remote weather information system testing and maintenance; boiler and cooling tower water testing; and maintenance and repair for fire alarms, sprinkler systems, office equipment, weed and lawn care, and lock and key core replacement.

6) <u>Weed Control</u> - The Executive Budget adds $176,019 each year of the biennium to cover increased costs for weed control and supplies for chemical mowing and sterilants.

7) <u>Roadways Contractor Payments</u> - The executive adds $2,611,817 in fiscal 1998 and $2,402,055 in fiscal 1999 for pavement preservation contract payments. The pavement preservation program has increased this type of work on Montana's highways, and the department has expanded its use of private contractors for this additional workload. This increase to base expenditures for pavement preservation costs is the anticipated level required for the upcoming biennium.

***<u>LFD Comment</u>* - The fiscal 1996 base expenditures were $5,513,350. The requested present law adjustment represents a 45 percent increase in these costs.**

8) <u>Consulting & Professional Services</u> - The Executive Budget adds $36,916 each year of the biennium for professional training on hazardous wastes methods improvement, product improvements, and general hazardous waste management and safety.

9) <u>Inspection Field Equipment</u> - The Executive Budget adds $49,693 each year of the biennium for anticipated field inspection equipment for each district.

11) <u>Telephone Usage for Weather Stations</u> - The Executive Budget adds $38,600 each year of the biennium for additional long-distance telephone costs associated with additional phone lines at the weather stations.

13) <u>Equipment Assigned Time & Usage</u> - The Executive Budget adds $1,451,242 in fiscal 1998 and $1,495,021 in fiscal 1999 for authority for equipment assigned time and usage increases. Past work levels are used along with the equipment user/provider rate schedule to develop a projection of equipment assigned time and usage by class. An increase in the rate schedule is the reason for this increase, as the work level is projected to remain constant.

***<u>LFD Comment</u>* - The Maintenance and Construction programs are charged various rates for equipment rented from MDT's Equipment program. Since this is an internal service function, a discussion of rates can be found in the "Proprietary Rate Setting and State Fund" section. Per the rate analysis narrative, the equipment rates are anticipated to increase 3 percent each fiscal year in the 1999 biennium (over the fiscal 1997 rates). Total fiscal 1996 base expenditures were $11,427,646, which reflects a 13 percent increase in these costs over the base year.**

14) <u>Utilities Increases</u> - The Executive Budget adds $54,269 in fiscal 1998 and $61,890 in fiscal 1999 for increases to utilities. Prior to 1997, the city of Billings paid for electrical lighting and signals, through a contract with the department. In addition, new weather monitoring stations are increasing electrical costs. New rest areas scheduled to open during the biennium will require an increase in utilities as well.

15) Maintenance Materials & Stockpiles - The Executive Budget adds $2,011,501 in fiscal 1998 and $1,604,881 in fiscal 1999 for road maintenance materials stockpiles. As a result of contracting with private entities to do increased amounts of pavement preservation work, the department has had to adjust the use of stockpiles around the state. The recommended levels are now being maintained to meet the maintenance needs in each part of the state, including winter maintenance materials, materials for new roads, and materials for widening of roads done through construction projects. In addition, the increase in pavement preservation has increased the use of paint for repainting traffic lines. A need to restock paint inventory adds $1,223,349 in fiscal 1998 and $1,275,892 in fiscal 1999, which are included in the total increases listed above.

LFD Comment - **The fiscal 1996 base year expenditure for paint for traffic lines was $1,264,802. The total present law increases being requested for paint for traffic lines represent a 97 percent increase in fiscal 1998 and 101 percent increase in fiscal 1999.**

16) Contracted Maintenance Requirements - The Executive Budget adds $44,761 in fiscal 1998 and $61,399 in fiscal 1999 for increased contracted maintenance requirements in the Great Falls, Billings, Fort Benton/Chester areas.

10) Replacement Equipment - The Executive Budget decreases by $262,462 in fiscal 1998 and $391,484 in fiscal 1999 due to reduced replacement equipment requirements. The department is requesting $267,113 in fiscal 1998 and $138,091 in fiscal 1999 to purchase regular maintenance equipment such as mowers, hot water washers, air compressors, pavement breakers, plate compactors, paint sprayers, mobile radios, repeaters, and communications test equipment.

12) Land Acquisition - The Executive Budget adds $66,821 each year of the biennium for projected land expenditures for projects in the development phase such as land acquisition, right-of-way, and condemnation activities.

5401 03
Department of Transportation **Maintenance Program**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Maintenance Fte Request	20.26		1,679,267	1,679,267	27.00		1,738,128	1,738,128
02 Preventive Maintenance Nhs Sys			1,000,000	1,000,000			1,000,000	1,000,000
03 Equipment			101,125	101,125			72,450	72,450
04 Requirements			250,000	250,000			250,000	250,000
05 Maintenance Management System			300,000	300,000				
06 Communications			19,435	19,435			7,437	7,437
Total For New Proposals	20.26		$3,349,827	$3,349,827	27.00		$3,068,015	$3,068,015

Executive New Proposals

1) Maintenance FTE Request - The Executive Budget adds 20.26 FTE and $1,679,267 in fiscal 1998 and 27.00 FTE and $1,738,128 considered necessary to meet minimum levels of road repair and winter maintenance services. The additional resources are based on experience during the past winter of the necessary requirements to maintain the 19,464 lane miles of roadways. It has been determined that current road repair and winter maintenance levels cannot be maintained without an increase to the maintenance program.

LFD Issue **- During the last legislative session, the executive proposed a reduction of 72.95 FTE from the Maintenance Program's 637.38 FTE level in order to fund MDT's pay plan. This measure was subsequently approved by the 1995 legislature and amounted to a budget reduction totaling approximately $4.9 million in the 1997 biennium. The FTE reduction of 72.95 was offset by a transfer of 14.5 FTE from the Construction Program, which resulted in a net FTE reduction in the Maintenance Program of 58.45 FTE.**

During fiscal 1996, the Maintenance Program incurred higher than anticipated expenditures for seasonal employees and overtime. The department contends that increases in personal services expenditures were driven by providing current level services within the context of an exceptionally harsh winter in fiscal 1996. The department offset the costs of these non-budgeted personal services increases by transferring spending authority from operations and utilizing carryforward funds from the agency's fiscal 1994 reverted appropriation.

The executive is now requesting that 27.0 new FTE be added to the Maintenance Program in the 1999 biennium at a cost of $3,417,395. This increase amounts to 70 percent of the savings which were to have been generated by the Maintenance Program's 1997 biennium FTE reduction. Additionally, because the savings generated by the recent FTE reductions were intended to fund the agency's pay plan, the legislature may wish to ask the executive how the continuing costs of the agency's pay plan will be funded.

2) Preventative Maintenance NHS - The Executive Budget adds $1,000,000 each year of the biennium to implement a preventative maintenance program on The National Highway System (NHS) roadways. The NHS system is a Congressionally defined system of roadways consisting of 3,859 centerline miles of Interstate and other selected principal arterials. The goal of the program is to ensure maintenance is performed on a roadway before it deteriorates to the point of failure. Activities include chip seals, thin lift overlays, and rut filling performed at scheduled intervals. Current maintenance resources primarily address reactive maintenance to roadway failures, leaving limited resources for preventive maintenance.

LFD Comment **- Department staff have indicated that the intent of preventative maintenance activities is to reduce the extent of deterioration of roadways, resulting in potential future savings on major maintenance and/or construction activities. The legislature may wish to request a report from the department detailing how these expenditures will impact future highways funding needs.**

3) Field Operations New Equipment - The Executive Budget adds $101,125 in fiscal 1998 and $72,450 in fiscal 1999 to purchase new equipment for the Maintenance Program. This includes regular maintenance equipment such as mowers, stripers, pumps, jacks, and equipment to handle different types of materials to satisfy EPA and other federal guidelines, such as saddle tanks for striping and to spread de-icer.

4) MDOT Environmental Requirements - The Executive Budget adds $250,000 each year of the biennium to provide continued funding for hazardous waste mitigation, monitoring, material identification, and cleanup, and the identification and modification , where necessary, of department operations, sites, and/or equipment to meet state and federal environmental or hazardous waste rules and regulations.

LFD Comment **- This request reflects a reduced amount of funds requested for hazardous waste mitigation as compared to the 1997 biennium. The 1997 biennium appropriation was a one-time only appropriation of $1,000,000 each year of the biennium. The fiscal 1996 base expenditure for this purpose was $991,398.**

5) Maintenance Management System - The Executive Budget adds $300,000 in fiscal 1998 for the department to upgrade its current Maintenance Management System (MMS). MMS is a mandated management system required to meet state and

federal information reporting and tracking requirements of various highway maintenance activities. The current system of tracking daily maintenance activities is through a mainframe data base system that does not lend itself to easy analysis. The request is to move the MMS data base to an Oracle-type data base that would make the system more compatible with other department systems as well as being easier to access.

LFD Comment - **The federal transportation bill, ISTEA, requires that states institute at least six types of highway management systems.**

6) Communications Equipment - The Executive Budget adds $19,435 in fiscal 1998 and $7,437 in fiscal 1999 for the department to purchase mobile radios for crew vehicles that currently do not have mobile communications and for a new repeater to enhance radio communications for the Jordan section while they are in the Rock Springs area.

Executive Language Recommendation

The executive recommends the following language be included in HB 2:

> "The department may adjust appropriations in the construction and transportation planning programs between state special and federal special revenue fund types, provided the total state special revenue authority for these programs is not increased by more than 10% of the total appropriations established by the legislature for each program. All transfers between fund types must be fully explained and justified on budget documents submitted to the office of budget and program planning, and all fund transfers of more than $1 million in any 30-day period must be communicated to the legislative finance committee in a written report."
>
> "The appropriation in the amount of $802,000 each year of the biennium for weed control is a biennial appropriation that may be combined and spent in either year."
>
> "The appropriation in the amount of $250,000 each year of the biennium for MDOT environmental requirements is a biennial appropriation that may be combined and spent in either year."
>
> "The appropriation in the amount of $19,435 in fiscal 1998 and $7,437 fiscal year for communications equipment is a biennial appropriation that may be combined and spent in either year."
>
> "The department may adjust appropriations and FTE in the construction and maintenance programs between fiscal years to reflect actual expenditures related to the construction work plan."

LFD Issue - **The last section of language which the executive has recommended, involving appropriation adjustments "between fiscal years", is not currently allowable under Montana law. Designating the associated appropriations as biennial appropriations would allow for changes between fiscal years.**

5401 22 Department of Transportation Program Proposed Budget				Motor Carrier Services Division				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	112.63	0.00	0.00	112.63	0.00	0.00	112.63	112.63
Personal Services	3,298,281	215,586	0	3,513,867	226,206	0	3,524,487	7,038,354
Operating Expenses	799,818	21,187	0	821,005	20,725	0	820,543	1,641,548
Equipment	120,747	(74,962)	0	45,785	(73,573)	0	47,174	92,959
Total Costs	$4,218,846	$161,811	$0	$4,380,657	$173,358	$0	$4,392,204	$8,772,861
State/Other Special	4,218,846	161,811	0	4,380,657	173,358	0	4,392,204	8,772,861
Total Funds	$4,218,846	$161,811	$0	$4,380,657	$173,358	$0	$4,392,204	$8,772,861

Program Description

The Motor Carrier Services Division enforces state and federal commercial motor carrier laws including vehicle size and weight, insurance, licensing, fuel, and vehicle and driver safety. The Licensing and Permit Bureau registers interstate fleet vehicles, issues commercial vehicle licenses, issues oversize/overweight permits, and collects and distributes fees and taxes. The Enforcement Bureau operates a statewide weigh station and mobile enforcement program and assigns uniformed officers to inspect commercial vehicles for compliance with state and federal safety, registration, fuel, insurance and size/weight laws.

The Motor Carrier Services Program is mandated by Title 61, Chapter 9, MCA.

Funding

Motor carrier services are funded by highway special revenues. Highway special revenues are derived from highway user fees such as fuel taxes and GVW fees. In the 1999 biennium, gas taxes are projected to comprise 62 percent of highway special revenues, diesel fuel taxes 24 percent, and GVW fees 14 percent.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5401 22 Department of Transportation Motor Carrier Services Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	219,200	228,750
02		Inflation/Deflation	(1,589)	(1,782)
03		Fixed Costs	(123)	(123)
		Total Statewide Adjustments	$217,488	$226,845
Significant Present Law Adjustments				
04	79199	Replacement Enforcement Equipment	(74,962)	(73,573)
05	91001	Enforcement Workload	19,285	20,086
		Total Significant PL Adjustments	($55,677)	($53,487)
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$161,811	$173,358

4) Replacement Enforcement Equipment - Replacement equipment for fiscal 1998 is a net reduction of $74,962 from the base and includes the replacement of three personal computers, three personal computer printers, four portable scales, three radar guns, one patrol vehicle and two weigh station radios, and two

indicator/weight ticket printers for weigh station scales. Replacement equipment for fiscal 1999 is a net reduction of $73,573 from the base and includes similar equipment replacements as in fiscal 1998.

5) Enforcement Workload - The Executive Budget adds $19,285 in fiscal 1998 and $20,086 in fiscal 1999 highways special revenue funds for the Motor Carrier Division. These increases are needed for membership dues associated with the International Registration Plan (IRP) and HELP, Inc. for membership in the Intelligent Vehicle Highway System and for credit card transaction costs which have risen because of increased usage of credit cards by motor carrier industry for payment of permit fees to MDOT. The net increases were offset by reductions from the base as a result of the closure of the Minnesota Avenue weigh station in Billings and the installation of SummitNet. SummitNet is anticipated to result in lower long-distance communications costs.

5401 40

Department of Transportation — **Aeronautics Program**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	8.85	0.00	1.50	10.35	0.00	2.00	10.85	10.35
Personal Services	302,001	24,508	43,216	369,725	25,164	57,622	384,787	754,512
Operating Expenses	313,711	66,102	(52,100)	327,713	64,483	(52,100)	326,094	653,807
Equipment	21,763	(21,763)	0	0	(21,763)	0	0	0
Grants	0	364,607	4,000,596	4,365,203	135,000	4,000,596	4,135,596	8,500,799
Transfers	17,115	1,885	0	19,000	1,885	0	19,000	38,000
Total Costs	$654,590	$435,339	$3,991,712	$5,081,641	$204,769	$4,006,118	$4,865,477	$9,947,118
State/Other Special	579,590	435,339	(60,100)	954,829	204,769	(60,100)	724,259	1,679,088
Federal Special	75,000	0	4,051,812	4,126,812	0	4,066,218	4,141,218	8,268,030
Total Funds	$654,590	$435,339	$3,991,712	$5,081,641	$204,769	$4,006,118	$4,865,477	$9,947,118

Program Description

The Montana Aeronautics Division facilitates the maintenance of airports and the various components of airport infrastructure, including visual and electronic navigational facilities and flying aids; fosters, promotes, and supervises aviation and aviation safety through educational efforts and programs; registers aircraft and pilots in accordance with Montana laws and regulations; and coordinates and supervises aerial search and rescue operations. In accordance with the maintenance and safety aspects of the division purpose, it administers a loan and grant program to municipal governments to fund airport improvement projects. The Aeronautics Board approves all loan/grant requests and advises on matters pertaining to aeronautics.

The division serves in a liaison capacity between the State of Montana and various entities including the U.S. Department of Transportation, the Federal Aviation Administration (FAA), other federal and state entities, and commercial airlines to assure the retention and continuation of airline service to the rural communities of the state. The division also is responsible for operation of the air carrier airport at West Yellowstone and for 12 other state-owned airports.

The Aeronautics Program is mandated and/or governed by multiple state and federal laws and contractual agreements which are listed in the Governor's Budget Volume 8. Primary among them are Title 67, MCA, and Public Law 557.

Funding

The Aeronautics Program is funded by state aviation fuels taxes and federal aviation administration grants. Operation of the West Yellowstone Airport is funded from a proprietary account with revenues that include local property taxes, rentals and leases, concession sales receipts, and landing fees (for a discussion of West Yellowstone fees and rate discussion, see the "Proprietary Rate Setting and State Fund" section.)

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5401 40 Department of Transportation Aeronautics Program			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	24,508	25,164
02		Inflation/Deflation	1,832	3,175
03		Fixed Costs	4,488	4,526
		Total Statewide Adjustments	$30,828	$32,865
Significant Present Law Adjustments				
04	91001	Overhaul Aircraft Engines	28,000	25,000
05	91002	Airport Improvement Grants	364,607	135,000
		Total Significant PL Adjustments	$392,607	$160,000
Other Base Adjustments			$11,904	$11,904
		Grand Total Present Law Adjustments	$435,339	$204,769

4) Overhaul Aircraft Engines - The Executive Budget adds $28,000 in fiscal 1998 and $25,000 in fiscal 1999 of Aeronautics Division state special revenue for overhaul of aircraft engines. Engines on the two aircrafts have reached the manufacturer's specified operating time when the engines should be overhauled. Overhaul is needed to maintain safe operating condition and remain within Federal Aviation Administration guidelines.

5) Airport Improvement Grants - The Executive Budget adds $276,273 in fiscal 1998 and $46,666 in fiscal 1999 in aeronautical account funds for airport improvement grants to local municipalities. The present law adjustments table shows increases of $364,607 in fiscal 1998 and $135,000 in fiscal 1999. The reason for the disparity is the base year expenditures of $88,334 are not included in the base for these present law adjustment calculations, but instead are included in the base for the West Yellowstone Airport HB576 account.

Other Base Adjustments - Within the revenue available, numerous small dollar increases and decreases from the base year in operating expenses comprise the majority of the other base adjustments.

5401 40 Department of Transportation Executive Budget New Proposals		Aeronautics Program						
	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Program Reductions			(60,100)	(60,100)			(60,100)	(60,100)
02 Airports & Fte Grant	1.50		4,051,812	4,051,812	2.00		4,066,218	4,066,218
Total For New Proposals	1.50		$3,991,712	$3,991,712	2.00		$4,006,118	$4,006,118

Executive New Proposals

1) Program Reductions - The Executive Budget decreases by $ 0,100 in fiscal 1998 and $60,100 in fiscal 1999 in state special revenue funds to adjust for fund balance and cash flow shortages. With the reduction at Malmstrom Air Force Base, the aerona itics fuel tax revenue decreased, thereby requiring reductions in programs to meet requirements for a balanced budget. e programs will be eliminated: flight safety instructi , winter survival clinic; and scholarships. The teacher workshops and air service promotion programs will be reduced.

2) Airports & FTE Grant - The Executive Budget recommends contingent approval of 1.50 FTE in fiscal 1998 with $4,051,812 in federal special revenue and 2.00 FTE in fiscal 1999 with $4,066,218 in federal special revenue for the division to participate in the State Block Grant Pilot Program. The State Block Grant Pilot Program was authorized by the Airport and Airway Safety, Capacity, Noise Improvement and Intermodal Transportation Act of 1992. The purpose of the program is to shift or share with states implementation of the Federal Airport Improvement Program (AIP). This pilot program potentially will allow greater state discretion in selecting and managing projects within several categories of AIP funding Because the program is under review by Congress, the proposed federal funds are contingent upon approval of the pilot program and Montana being chosen to participate in the program. Program administration costs, including personal services, will qualify for payment with federal funds.

***LFD Issue* - In 1987, Congress authorized the FAA to initiate the State Block Grant Pilot Program. In all, 7 states (IL, MI, MO, NJ, NC, TX, WI) have participated in the program. Under the pilot program, the FAA provides AIP funds directly to participating states that, in turn, select and fund AIP projects at small airports. The program is due to expire at the end of fiscal 1996, unless reauthorized by Congress.**

The program essentially involves a shifting or transfer of previously performed FAA functions at small airports to participating states. These functions include: 1) assisting airports in preparing long-range plans for airport development; 2) providing and overseeing AIP funds (grant administration); 3) ensuring the implementation of safety and security mandates; and 4) conducting on-site inspections and overseeing construction.

The FAA allocates AIP funds to airports through three types of grants: an apportionment, set-asides, and discretionary funds. The apportionment is based on factors such as the population and territory of each state and provides a specified amount of funding to be made available to small airports within each state. Set-asides are categories established by Congress to direct certain AIP funds to such projects as planning and noise abatement, or to certain types of airports, such as relievers. Discretionary funds are allocated by FAA for projects which it views as high priority.

The purpose of the program, in the FAA's view, is to use the state block grant program as a tool to develop a national system of airports adhering to the certain federal priorities. States tend to view the program as allowing greater decision-making authority at the state level; however, the FAA does require that block grant states adhere to the national priority system when distributing grant funds. In addition to the 7 states already participating in the pilot program, 34 states, including Montana, have expressed an interest in participating.

Initially the pilot program was not intended to provide funds for program administration; however, since many states need this type of assistance, a portion of program administration and personal services costs may be eligible for federal funding. The federal government has not confirmed that state block grant funds will be available to Montana. Therefore, the executive proposes language making this appropriation contingent upon actual receipt of the federal funds.

In the event that federal funds become available, and that the legislature desires to approve the executive's request to use those funds, the legislature may wish to ask the department the following questions:

> **1) In what ways would accepting the federal block grant funds change or expand the services which the department is currently performing?**

2) Is there an adequate number of experienced staff under the purview of the department to implement the shifted FAA functions?

3) Will the federal grant cover the anticipated additional costs associated with implementing previously-performed FAA functions?

Executive Language Recommendation

The following language is recommended for inclusion in HB2:

> "Item X contains federal special revenue of $4,051,812 in fiscal 1998 and $4,066,218 in fiscal 1999 of the 1999 biennium which is contingent upon approval to participate in the state block grant pilot program."

5401 50

Department of Transportation — **Transportation Planning Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	61.10	0.00	0.00	61.10	0.00	0.00	61.10	61.10
Personal Services	2,213,170	(74,004)	0	2,139,166	(71,196)	0	2,141,974	4,281,140
Operating Expenses	546,582	792,789	0	1,339,371	577,214	0	1,123,796	2,463,167
Equipment	149,529	(63,529)	450,000	536,000	(149,529)	20,000	20,000	556,000
Local Assistance	249,800	200	0	250,000	200	0	250,000	500,000
Grants	2,917,330	174,247	0	3,091,577	174,247	0	3,091,577	6,183,154
Total Costs	$6,076,411	$829,703	$450,000	$7,356,114	$530,936	$20,000	$6,627,347	$13,983,461
General Fund	249,800	200	0	250,000	200	0	250,000	500,000
State/Other Special	955,176	87,759	90,000	1,132,935	29,278	4,000	988,454	2,121,389
Federal Special	4,871,435	741,744	360,000	5,973,179	501,458	16,000	5,388,893	11,362,072
Total Funds	$6,076,411	$829,703	$450,000	$7,356,114	$530,936	$20,000	$6,627,347	$13,983,461

Program Description

The Transportation Planning Division provides: 1) technical assistance to local communities and transit authorities for planning, organizing, operating, and funding transportation systems; 2) administration of federal funds for capital, planning, and operating transit subsidies; 3) a yearly update of the State Rail Plan, and administration of federal and other funds for rail and related facility rehabilitation; 4) monetary assistance to communities through grants, loans, and rail bonding authority; and 5) representation of shippers and the state before the Surface Transportation Board and courts on rate issues, branchline abandonments, and service.

The transportation planning program is mandated and/or governed by the following statutes: 15-70-101, MCA; 60-3-206, MCA; 60-21-101, MCA.

Funding

Transportation planning is funded by highway special revenues, federal highway administration grants, and various other US Department of Transportation grants. Federal funds comprise 81 percent of the program revenues.

A portion of the state special revenue funding is comprised of pass-through funds received from local governments for use as matching funds on federal grants, such as the federal Community Transportation Enhancement Program (see related discussion of federal CTEP program under LFD's Agency Issues). Department expenses associated with the McCarty Farms lawsuit are funded with highways special revenue. The department currently receives a minor amount of general fund for the DUI task force.

Executive Present Law

5401 50 Department of Transportation Transportation Planning Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(74,004)	(71,196)
02		Inflation/Deflation	(831)	(2,137)
03		Fixed Costs	2,776	2,307
		Total Statewide Adjustments	($72,059)	($71,026)
Significant Present Law Adjustments				
04	91001	Tranplan 21	234,073	234,073
05	91002	Urban Planning Program (Mpo'S)	110,491	110,491
06	91003	Highway Traffic Safety Program	135,000	135,000
07	91020	Consultant Services	440,000	240,000
		Total Significant PL Adjustments	$919,564	$719,564
Other Base Adjustments			($17,802)	($117,602)
		Grand Total Present Law Adjustments	$829,703	$530,936

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) TranPlan 21 - The Executive Budget adds $234,073 in fiscal 1998 and $234,073 in fiscal 1999 state special revenue and federal funds to provide for initiation and ongoing implementation of Montana's Statewide Intermodal Transportation Plan (TranPlan 21). By federal statute, the Montana federal highway construction program (Statewide Transportation Improvement Program - STIP) must consider and be linked to the implementation of the federally-mandated statewide transportation plan. Failure to implement or consider the plan in the STIP could jeopardize federal highway and transit funds for the state and its metropolitan areas.

TranPlan 21 was completed and submitted to the Federal Highway Administration during the 54th Legislative Assembly. This completion date prohibited submission of a budget modification request during the last session to support implementation. The funding will be used to assure federal planning requirements are met and that TranPlan 21 implementation will be balanced consistent with public input received during the development stage. Implementation of TranPlan 21 is required by federal statute, reflects the aspirations of the Montana legislature and citizens, and is the next step in developing an integrated transportation system.

5) Transportation Improvement Program - The Executive Budget adds $110,494 in fiscal 1998 and $110,491 in fiscal 1999 state special revenue and federal funds to maintain a certifiable planning process in urbanized areas in accordance with Title 23 USC which provides a continuing process designed to provide an updated Transportation Improvement Program and to provide grants to cities and urban transportation districts for the operation of general public transportation systems.

6) Highway Traffic Safety Program - The Executive Budget adds $135,000 each year of the 1999 biennium in federal funds for engineering improvements and innovations, enforcement actions, and public information and education associated with the Highway Traffic Safety Program.

7) Consultant Services - The Executive Budget adds $440,000 in fiscal 1998 and $240,000 in fiscal 1999 in highways special revenue and highway trust funds for transportation planning functions. This includes $200,00 in fiscal 1998 to collect and process traffic data, $150,00 each year of the biennium to procure services to update three urban transportation plans, $75,000 each year for services to develop a Public Outreach Program for the Federal Transportation Reauthorization, and $15,000 each year to develop a statewide travel survey of transportation utilization.

Other Base Adjustments - There are decreases in other expenditures.

5401 50
Department of Transportation **Transportation Planning Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999		
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 New Equipment - Bender Plate/P			450,000	450,000			20,000	20,000
Total For New Proposals			$450,000	$450,000			$20,000	$20,000

Executive New Proposals

1) New Equipment - Bender Plate - There is recommended $450,00 in fiscal 1998 and $20,000 in fiscal 1999 to purchase new equipment for collecting and processing traffic and weight data that is needed for the Pavement Management System, the Intelligent Transportation Systems for commercial vehicle operations, project selection decisions of the MDOT, and project design decisions. This equipment will be purchased using federal state planning and research funds which are authorized under Title 23 USC and require a 20 percent state match.

Executive Language Recommendation

McCarty Farms - The executive supports a biennial language appropriation of highway special revenue in the amount of $200,000 each year primarily for costs of expert testimony associated with the McCarty Farms, et.al. lawsuit against Burlington Northern Railroad (BN), alleging that BN charged unjust and unreasonable rates for the shipment of wheat. The plaintiffs are seeking damages for the period of time BN is alleged to have charged unlawful rates, a change in the manner in which BN sets its shipping rates in the future, and recovery of litigation costs. The State of Montana is a party to the plaintiffs in this lawsuit and has pledged to support the costs of expert testimony required in prosecuting this highly complex case. Upon settlement or judgment, the state anticipates reimbursement, with interest, for these costs. To date, the state has expended the amounts shown on the following table, with interest based on Wharton Econometrics average short-term interest.

Table 8
McCarty Farms Expenditures

Fiscal Year	Annual Expenditure	Estimated Interest	Total	Interest Rate
1982	$9,615	$622	$10,237	12.93%
1983	46,350	3,368	49,718	10.08%
1984	16,280	6,360	22,640	9.34%
1985	142,846	13,600	156,446	8.83%
1986	241,956	25,201	267,157	7.00%
1987	181,652	37,612	219,264	6.30%
1988	257,936	61,519	319,455	7.20%
1989	132,535	94,228	226,763	8.48%
1990	61,403	108,488	169,891	8.33%
1991	63,883	98,578	162,461	6.69%
1992	75,762	76,021	151,783	4.63%
1993	95,150	61,315	156,465	3.40%
1994	99,500	75,930	175,430	3.87%
1995	715,629	125,945	841,574	5.15%
1996	6,859	160,126	166,985	5.46%
1997	393,000	166,614	559,614	5.06% (est)
1998	200,000	184,790	384,790	4.92% (est)
1999	200,000	201,237	401,237	4.86% (est)
Total	$2,940,356	$1,501,554	$4,441,910	

The executive recommends the following language be included in HB 2:

"It is the intent of the legislature that the department may establish additional state special revenue authority as necessary should expenses associated with the McCarty Farms lawsuit arise during the biennium. The amount of authority that may be requested is a biennial appropriation of up to $400,000 that may be combined and spent in either year of the 1999 biennium."

LFD Comments **- Since 1981, the state has been a party to the plaintiffs' in the McCarty Farms, et.al. class action lawsuit against Burlington Northern (BN) railroad**

regarding allegations of excessive grain shipment rates. The plaintiffs in the case include several Montana farmers (one being Mr. McCarty), an elevator, and the State of Montana. The "class" is comprised of 10,000 persons, farm corporations, and farming partnerships who grew and sold grain in Montana. The case was initially handled by the Department of Agriculture, with responsibility subsequently shifting to the Department of Commerce. The matter is now under the purview of the Department of Transportation.

The costs to the state have involved funds provided for expert testimony only, which have been funded in recent biennia via the highways special revenue account. The law firm representing the plaintiffs has not received any legal fees for their services, since the case is being handled on a contingency basis.

The most recent action in the case was in August, 1995 in which legal briefs were submitted to the Interstate Commerce Commission (ICC). The litigants were awaiting the Interstate Commerce Commission's (ICC) technical finding regarding the issue of rate reasonableness when, in December of 1995, the ICC was abolished as a federal agency. In January, 1996 the Surface Transportation Board (STB)was established in place of the ICC and was directed by Congress to take action on all old/pending cases of the ICC. The McCarty Farms case is the oldest known pending ICC case in the nation. Once the STB makes its finding, another round of legal actions could potentially occur.

Although various aspects of the case are confidential, the law firm did advise that various settlement negotiations have occurred over the years. However, the terms of settlement were unacceptable to the litigants involved. In the event of a settlement in favor of the plaintiffs, the state is asking for reimbursement of costs incurred. The other plaintiffs involved are seeking monetary damages, which could range in the millions.

LFD Issue - Additional authority can only be derived through a legislative appropriation, an appropriations transfer, or a supplemental appropriation (this use would not meet budget amendment criteria). Consequently, this language does not make any provision for receiving additional authority outside of currently available statutory means, under which all statutory criteria must be met. Therefore, the language does not provide for an alternate, legal increase in authority. If the legislature wishes to provide authority for this purpose, it could provide a biennial appropriation and restrict its use to this purpose.

5801 00 Agency Proposed Budget					Department of Revenue			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	638.89	1.00	3.75	643.64	1.00	5.00	644.89	643.64
Personal Services	17,795,238	1,736,066	108,767	19,640,071	1,778,417	145,021	19,718,676	39,358,747
Operating Expenses	5,455,568	249,770	1,163,533	6,868,871	208,316	803,361	6,467,245	13,336,116
Equipment	276,094	437,066	243,216	956,376	286,506	0	562,600	1,518,976
Benefits and Claims	0	0	0	0	0	0	0	0
Debt Service	234,409	(234,409)	0	0	(234,409)	0	0	0
Total Costs	$23,761,309	$2,188,493	$1,515,516	$27,465,318	$2,038,830	$948,382	$26,748,521	$54,213,839
General Fund	22,349,230	2,043,484	1,316,395	25,709,109	1,958,555	1,003,569	25,311,354	51,020,464
State/Other Special	810,035	106,077	127,392	1,043,504	95,604	125,678	1,031,317	2,074,822
Federal Special	226,068	136	486,500	712,704	281	179,500	405,849	1,118,553
Proprietary	375,976	38,795	(414,771)	0	(15,610)	(360,365)	1	1
Total Funds	$23,761,309	$2,188,493	$1,515,516	$27,465,318	$2,038,830	$948,382	$26,748,521	$54,213,839

Mission Statement

The mission of the Department of Revenue is to encourage voluntary compliance with the laws it administers by providing professional services to the public through a supportive work environment.

Agency Description

The Department of Revenue (DOR), authorized by 2-15-1301, MCA, collects revenue from and enforces regulations over 30 state taxes and fees. The department also is responsible for regulating the sale and distribution of alcoholic beverages in the state. The department is organized into six divisions with overall agency direction and management coordinated from the Director's Office.

5801 00 Department of Revenue					Biennium Budget Comparison			
Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	639.89	3.75	643.64	639.89	5.00	644.89	638.89	643.64
Personal Services	19,531,304	108,767	19,640,071	19,573,655	145,021	19,718,676	36,926,738	39,358,747
Operating Expenses	5,705,338	1,163,533	6,868,871	5,663,884	803,361	6,467,245	10,544,184	13,336,116
Equipment	713,160	243,216	956,376	562,600	0	562,600	436,562	1,518,976
Benefits and Claims	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	439,513	0
Total Costs	$25,949,802	$1,515,516	$27,465,318	$25,800,139	$948,382	$26,748,521	$48,346,997	$54,213,839
General Fund	24,392,714	1,316,395	25,709,109	24,307,785	1,003,569	25,311,354	45,558,228	51,020,464
State/Other Special	916,112	127,392	1,043,504	905,639	125,678	1,031,317	1,594,581	2,074,822
Federal Special	226,204	486,500	712,704	226,349	179,500	405,849	469,341	1,118,553
Proprietary	414,771	(414,771)	0	360,366	(360,365)	1	724,847	1
Total Funds	$25,949,802	$1,515,516	$27,465,318	$25,800,139	$948,382	$26,748,521	$48,346,997	$54,213,839

5801 01 Department of Revenue Program Proposed Budget				Directors Office				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	23.00	0.00	0.00	23.00	0.00	0.00	23.00	23.00
Personal Services	795,298	154,120	0	949,418	161,181	0	956,479	1,905,897
Operating Expenses	273,083	35,780	773,000	1,081,863	(75,939)	359,000	556,144	1,638,007
Equipment	19,497	1,003	200,000	220,500	1,003	0	20,500	241,000
Total Costs	$1,087,878	$190,903	$973,000	$2,251,781	$86,245	$359,000	$1,533,123	$3,784,904
General Fund	963,084	184,186	613,942	1,761,212	120,355	270,184	1,353,623	3,114,834
State/Other Special	3,722	(503)	0	3,219	(3,722)	0	0	3,219
Federal Special	986	(136)	486,500	487,350	(986)	179,500	179,500	666,850
Proprietary	120,086	7,356	(127,442)	0	(29,402)	(90,684)	1	1
Total Funds	$1,087,878	$190,903	$973,000	$2,251,781	$86,245	$359,000	$1,533,123	$3,784,904

Program Description

The Director's Office provides management control, coordination of policy direction, strategic planning, and legal services to assist the tax and liquor programs fulfill their responsibilities. Legal services staff advise other program staff and handle a large number of tax appeals before the State Tax Appeal Board and state courts. Research and information staff perform and publish studies concerning the impact on state and local revenue sources caused by legislative actions, executive decisions, and changes in economic patterns.

The Director's Office operates pursuant to 2-15-1301, MCA, which establishes the Department of Revenue and 2-15-1302, MCA, which specifies the authorities of the director. The program operates under state mandates.

Funding

The Director's Office is funded with general fund, state special revenue funds, and proprietary funds. State special revenue consists of unclaimed property funds and proceeds from the accommodations, cigarette, and payroll taxes. These funds pay a portion of the department's biennial audit cost. The federal royalty audit program provides federal funds that also pay a portion of the biennial audit cost. Proprietary funds are liquor enterprise funds that pay the liquor division's share of the agency-wide overhead costs of the Director's Office and a portion of the biennial audit costs.

In the past, the Director's Office funded a larger share of its operations with liquor enterprise funds. Because the Legislative Audit Division noted that 16-2-108, MCA requires that liquor enterprise funds be used only to pay costs associated with the liquor merchandising function and also requires that all profits be deposited to the general fund, the Director's Office now receives only enough liquor enterprise funds to pay costs attributable to the liquor merchandising function. To offset its loss of liquor enterprise funds, the office receives more general fund, but this funding change has not affected the general fund balance. Because liquor enterprise profits are transferred to the general fund, liquor enterprise money that in the past would have gone to the Director's Office now goes to the general fund. Since the Director's Office receives extra general fund to make up for its loss of liquor enterprise funds, the extra amount the general fund receives in liquor enterprise profits equals the extra amount the general fund now pays to the Director's Office.

The Director's Office is requesting $486,500 in general fund and $486,500 in federal special revenue in fiscal 1998 and $179,500 in general fund and $179,500 in federal special revenue in fiscal 1999 to pay for increased processing costs associated with the consolidation of Department of Labor and Industry Unemployment Insurance and Department of Revenue tax functions. (See the New Proposals section and the Program Issues section for a fuller explanation.)

Executive Present Law

5801 01 Department of Revenue Directors Office			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	158,580	160,202
02		Inflation/Deflation	(4,813)	(5,902)
03		Fixed Costs	52,189	(69,123)
		Total Statewide Adjustments	$205,956	$85,177
Significant Present Law Adjustments				
04	79199	Equipment - Computers - Replac	1,003	1,003
05	91001	Cyclical Session Year Expenses	(4,460)	11,661
06	91002	Expert Witnesses	14,901	14,901
07	91003	Systems Development	(20,000)	(20,000)
08	91004	General Base Expenditures	(5,012)	(5,012)
		Total Significant PL Adjustments	($13,568)	$2,553
Other Base Adjustments			($1,485)	($1,485)
		Grand Total Present Law Adjustments	$190,903	$86,245

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - The net increases in personal services are comprised of statewide adjustments for annualization of the fiscal 1997 pay plan, FICA and Medicare taxes, workers' compensation, and other standard adjustments.

4) Equipment - Computers - Replacement - Replacement equipment for fiscal years 1998 and 1999 is a net increase of $1,003 above the base and includes $20,500 per year for replacement of personal computers. The annual amount is based upon a three-year replacement cycle.

5) Cyclical Session Year Expenses - The cyclical nature of expenditures related to the legislative session results in a net reduction of $4,460 in fiscal year 1998. This reduction represents the elimination of overtime incurred during the base year. The fiscal 1999 increase of $11,661 consists of overtime required for staff in the Office of Research and Information during the 1999 session, increased computer processing for tax projections and modeling, and printing of publications such as the department biennial report and Taxpayer's Digest.

6) Expert Witnesses - Additional hours of contracted service fees for expert witnesses in major litigation is an increase of $14,901 each year. Major litigation is anticipated in several areas, including challenges to the residential and commercial appraisal systems, corporation taxes, and natural resource taxes, in order to finally resolve the most important legal issues.

LFD Issue **- Unless the legislature approves the new proposal to substitute general fund for liquor enterprise funds, the office plans to use $1,174 each fiscal year from the liquor enterprise fund to pay a portion of these expert witness fees. The Legislative Audit Division audit report for the two fiscal years ended June 30, 1994 noted that 16-2-108, MCA requires that liquor enterprise funds be used only to pay for costs associated with state liquor sales and also requires that excess funds be transferred to the general fund. Unless the Director's Office can relate fees for expert witnesses to state liquor sales, the money to pay for these fees should not come from the liquor enterprise fund.**

7) Systems Development - Expenditures for computer systems development decrease by $20,000 each year reflecting the completion of development projects during the current biennium.

8) General Base Expenditures - Expenditures of $5,012 in fiscal 1996 that were coded to the general other expenses category are eliminated for each year of the 1999 biennium.

Other Base Adjustments - Numerous small dollar amount increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

5801 01
Department of Revenue — **Directors Office**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Fund Change From Proprietary To General Fund		127,442	(127,442)			90,684	(90,684)	
02	Doli/Dor Incr Proc Costs		486,500	486,500	973,000		179,500	179,500	359,000
	Total For New Proposals		$613,942	$359,058	$973,000		$270,184	$88,816	$359,000

Executive New Proposals

1) Fund Change from Proprietary to General Fund - In the 1997 and preceding biennia, the Director's Office has been primarily funded with general fund and an overhead allocation of liquor enterprise funds. The use of liquor enterprise funds is virtually synonymous with the use of general fund insofar as liquor enterprise profits are transferred to the general fund; therefore, a decrease in the use of liquor enterprise funds and an increase in general fund results in a zero net impact to the general fund. The passage of HB 576 by the 1995 Legislature removed certain proprietary accounts, including the liquor enterprise account, from the list of accounts requiring appropriations. This proposal to increase general fund and decrease liquor enterprise funds by $127,442 in fiscal 1998 and to increase general fund and decrease liquor enterprise funds by $90,684 in fiscal 1999 recognizes that it is inconsistent to appropriate a portion of a non-appropriated proprietary account in the general appropriations act and that the proposed funding switch has no net impact on the general fund.

2) DOLI/DOR Increased Processing Costs - The proposed consolidation of payroll tax-based functions in the Department of Labor and Industry (DOLI) and the Department of Revenue (DOR) will result in certain increased costs in the 1999 biennium as a side effect to the efficiencies to be achieved. The recommended $973,000 in fiscal 1998 consists of $197,000 for contracted audit services from CPA firms upon which enhanced revenue collection assumptions are based, $316,000 for business process re-engineering, $50,000 for contracted services attributable to the physical relocation of up to 38.00 FTE from the DOLI to the Mitchell Building, $210,000 for increased computer processing costs, and $200,000 for new equipment. The recommended $359,000 in fiscal 1999 consists of $197,000 for increased contracted audit services and $162,000 for increased computer processing costs.

LFD Issue **- The computer equipment necessary to carry out the proposed consolidation of payroll-tax-based functions is part of the information technology bonding proposal. The expenditures requested in this new proposal will not be necessary unless the bonding proposal passes. If the legislature decides to approve this new proposal, it should make the appropriation contingent on passage of the information technology bonding proposal. The legislature may also wish to designate certain of these funds, if approved, as one-time-only expenditures, including the costs of business process re-engineering, physical relocation of employees,**

and equipment. (See the Program Issues section for a fuller discussion of this new proposal.)

Program Issue

Transfer of the Unemployment Insurance Contributions Bureau to the Department of Revenue

Montana employers provide separate reports of the wages they pay to the Department of Revenue (DOR) and to the Unemployment Insurance Contributions Bureau of the Department of Labor and Industry. The Department of Revenue uses its reports to calculate employer tax liabilities for payroll withholding taxes and the Old Fund Liability Tax (OFLT); the Unemployment Insurance Contributions Bureau uses its reports to calculate employer tax liabilities for the unemployment insurance (UI) tax. House Bill 550, enacted by the 54th Legislature, simplified employer wage reporting procedures and anticipated that combining the wage-based tax collection functions of the Department of Revenue and the Unemployment Insurance Contributions Bureau could further simplify employer reporting procedures. The bill appropriated $250,000 for a cost-benefit analysis "to determine the feasibility of integrating employer wage reporting and related functions." The fiscal note for HB 550 explained that the cost-benefit analysis would study the effects of combining the unemployment insurance tax collection function of the Department of Labor and Industry with the payroll withholding tax and OFLT collection functions of the Department of Revenue. The fiscal note stated that if the cost-benefit analysis supported the integration of the UI and DOR tax collection functions, a detailed proposal addressing personal services, operating, and system development costs would be prepared for the 55th Legislature. The Department of Revenue and the Department of Labor and Industry have concluded that the cost-benefit analysis does support integration of the tax collection functions.

The cost-benefit analysis, conducted by Andersen Consulting, considered the effects of two alternatives. The first alternative, more limited and less expensive than the second, would consist of the following: 1) consolidation of the common elements of the unemployment insurance, payroll withholding, and OFLT tax collection functions; 2) the transfer of the Unemployment Insurance Contributions Bureau to the Department of Revenue; and 3) the modification of existing DOR computer systems to accommodate the consolidation. The report concludes that the first five years worth of benefits from this alternative would outweigh its first five years' of costs by somewhere between $1.06 and $5.17 million. The cost-benefit analysis results for the first alternative are shown in Table 1.

Table 1
Alternative #1
Andersen Consulting Report Results

Benefits	Low	High
Cost Reductions		
Personnel	$1,152,044	$2,123,914
DLI Space	191,250	191,250
ISD Charges for Network Use	600,000	600,000
Computer Maintenance/Enhancements	198,000	198,000
Revenue Enhancements		
Supplemental Audit Group		
Audit Revenue	975,000	1,560,000
Penalty and Interest		
Collection of UI Penalty/Interest	941,513	2,262,928
Delinquent Tax Collections		
UI Contributions (Only)	297,985	595,969
Withholding Tax/Penalty/Interest	869,119	1,738,238
OFLT Tax/Penalty/Interest	142,858	285,716
Total Benefits	$5,367,769	$9,556,015

Costs	Low	High
Additional Audit Personnel	$886,307	$886,307
Facility Relocation/Personnel Space		
Facility Relocation	$50,000	$50,000
DOR Space	109,368	109,368
Field Support Space	50,000	50,000
Business Process Reengineering	$166,400	$208,000
Organizational Reengineering	$150,400	$188,000
DOR System Modifications		
System Modifications	$285,600	$285,600
Maintenance and Enhancements	1,500,000	1,500,000
ISD Charges for Network Use	1,105,000	1,105,000
Total Costs	$4,303,075	$4,382,275
Integration/Reengineering Benefits	($1,064,694)	($5,173,740)

The second alternative would be to integrate the tax collection functions, as in the first alternative, and also to upgrade all Department of Revenue computers in order to develop a system that could ultimately support the administration of all DOR tax collection functions. The report concludes that the net benefits of this alternative (over five years) would be somewhere between $21.71 million and $74.12 million. The cost-benefit analysis results for the second alternative are shown in Table 2.

Table 2
Alternative #2
Andersen Consulting Report Results

	Benefits	Costs	Integration Benefits
Consolidate and reengineer all common UI/Withholding/OFLT Key business processes			
Merge the UI Contributions Bureau into the Department of Revenue	$29,707,365 to $89,122,088	$80,000,000 to $15,000,000	$21,707,365 to $74,122,088
Implement a new integrated system to support UI/Withholding/OFLT and ultimately all other taxes processed by the Department of Revenue			

Though the Andersen report is clear in identifying and explaining the effects of the two alternatives, much of the cost-benefit portion of the report is questionable. For example, the report directly compares costs and benefits that will occur later in the life of the project with those that will occur earlier. The largest portion of the total cost of tax system integration will occur soon after the project begins, but project benefits will generally come later. A benefit that will occur in the future is not worth as much as it would be if it occurred today; the same principle applies to costs. Financial analysts use a method known as *discounting* to translate future costs and benefits into values that can be compared directly with present costs and benefits. The Andersen cost-benefit analysis does not discount future costs and benefits. Because most of the project's benefits will occur well after its costs, and because the Andersen report does not discount future benefits, the report overstates the net benefits (benefits minus costs) of tax system integration, in one case by as much as 37 percent.

In its contract with Andersen Consulting, the Department of Revenue never defined exactly what it meant by the term "cost-benefit analysis", so it is somewhat difficult to determine whether the report counts benefits and costs correctly. For example, the report concludes that most of the project's benefits will come from the additional tax revenue the state will be able to collect after tax system consolidation. Cost-benefit analysis experts recognize that additional tax revenues should not be counted as benefits of a government project. Tax payments are simply transfers of money from taxpayers to the government. The actual benefits of a government project are those benefits or savings that citizens experience as a result of the project. The Andersen report does estimate the benefits that Montana business owners would receive from reduced wage and tax reporting requirements, but does not include them in its final calculation of the project's net benefits. Because the Andersen report leaves out estimates of the benefits and costs that Montana citizens will experience from tax system integration and considers only the benefits and costs that the government of

Montana will experience, it is not actually a cost-benefit analysis of tax system integration, as the term "cost-benefit analysis" is defined by experts. Rather, it is an attempt to determine whether the extra taxes the state will collect as a result of tax system integration will outweigh the costs of integration.

Even though the report overstates the amount by which the additional taxes collected will exceed costs, its conclusion that additional tax revenues will be greater than costs appears to be valid. Though it is important to determine whether a tax system can pay its administrative costs, a tax system needs more than simply an ability to pay its way to recommend it. The real benefits of integrating the tax collection systems include the possibility of reducing administrative costs in the future and the other benefits the Andersen report does not include, such as reduced reporting requirements and a tax system that assures compliance with the law. State policy makers must decide if these benefits, and not the added tax revenue, justify integrating the tax collection systems. The conclusion that the Andersen report supports tax system integration should be looked at more closely.

Department of Revenue Budget Requests

Because the Andersen report concludes that additional tax revenue resulting from tax system integration will exceed integration costs, the Department of Revenue intends to implement the alternatives identified in the report, starting with the integration of the UI and DOR wage-based tax collection systems (alternative #1 in the Andersen report) and then upgrading all department computer systems and developing a centralized system to support all DOR tax collection functions (alternative #2 in the Andersen report). The Department of Revenue Executive Budget includes a new proposal for $1.3 million over the 1999 biennium, to be paid equally from the general fund and from federal funds, to cover the costs of contracted auditing services necessary to increase revenue collections and the costs of moving 42.0 FTE to the Department of Revenue from their present location in the Department of Labor and Industry. The Department of Revenue is also requesting, as part of the Information Technology bonding proposal, a total of $23.95 million for computer system upgrades, including the $2.5 million for computer system enhancements to accomplish the UI/DOR integration. The computer system upgrades would be funded through the sale of ten-year general obligation bonds. The department at one time requested in its 1999 biennium budget $3.13 million to pay the first two years' interest and principal on the bonds, but is no longer requesting this money because it anticipates payment of these costs through a statutory appropriation.

The Long-Range Planning Subcommittee will decide whether to proceed with the Information Technology bonding proposal. The General Government and Transportation Appropriations Subcommittee can help the Long-Range Planning Subcommittee make its decision by determining if the full $23.95 million of computer upgrades are necessary and to what extent it would be possible to delay at least some of the upgrades. If the legislature does not approve the $23.95 million of Department of Revenue computer upgrades contained in the Information Technology bonding proposal, the general government subcommittee will have to decide if it is still desirable to proceed with the UI/DOR integration and the $2.5 million of computer upgrades to implement the integration.

In making its decision on whether to proceed with the UI/DOR integration, the subcommittee may wish to consider the following questions:

1) Is it desirable to perform the UI/DOR integration given that the current computer system for unemployment insurance tax collections was upgraded two years ago?

Labor and Industry officials report that the system functions satisfactorily. It might instead be possible to achieve the goal of reduced reporting requirements for businesses through greater coordination between the Department of Revenue and the Unemployment Insurance Contributions Bureau in a way that would not require an extensive integration of the two agencies' computer systems. For example, one form could be developed to satisfy the reporting requirements of both the Department of Revenue and the Unemployment Insurance Contributions Bureau. The agency receiving the form could share it with the other, with each agency making use of its own separate computer system.

2) If only the UI/DOR integration with its $2.5 million of computer upgrades (and not the remaining $21.4 million of computer upgrades) is approved in the 1999 biennium, should the UI/DOR integration be delayed until all DOR systems are ungraded?

DOR officials state that the existing DOR computer systems, into which the UI system would be integrated, are dated and must be upgraded extensively in the near future. If the legislature does not approve the full amount requested for the DOR computer system upgrades, it might be better to delay integration of the UI and DOR tax collection functions until all DOR systems are upgraded. Department of Labor and Industry officials indicate that the existing UI contributions computer system would be capable of fulfilling its required functions during the interim.

5801 02 Department of Revenue Program Proposed Budget				Operations Division				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	71.25	0.00	0.75	72.00	0.00	1.00	72.25	72.00
Personal Services	1,966,967	186,286	31,967	2,185,220	188,676	42,623	2,198,266	4,383,486
Operating Expenses	434,537	8,843	3,003	446,383	9,076	2,080	445,693	892,076
Equipment	78,784	144,276	0	223,060	(5,284)	0	73,500	296,560
Debt Service	6,678	(6,678)	0	0	(6,678)	0	0	0
Total Costs	$2,486,966	$332,727	$34,970	$2,854,663	$185,790	$44,703	$2,717,459	$5,572,122
General Fund	2,128,352	286,941	322,299	2,737,592	163,536	314,384	2,606,272	5,343,865
State/Other Special	102,724	14,346	0	117,070	8,463	0	111,187	228,257
Proprietary	255,890	31,439	(287,329)	0	13,791	(269,681)	0	0
Total Funds	$2,486,966	$332,727	$34,970	$2,854,663	$185,790	$44,703	$2,717,459	$5,572,122

Program Description

The Operations Division was created in fiscal 1994 through a reorganization that combined the former Centralized Services and Data Processing Divisions. The division: 1) performs a variety of accounting, cashiering, fiscal control, mail receipt and distribution, purchasing, and budgeting services for all department programs, including administration of old fund liability tax and beer and wine tax collections; and 2) provides automated data and word processing, systems analysis, systems development and maintenance, data entry, computer operations support, technical support, and research services for all department programs.

As a support unit, the Operations Division is indirectly authorized by all other statutes authorizing Department of Revenue functions and programs. In addition, the Operations Division distributes liquor, beer, and wine tax proceeds to local governments pursuant to 16-1-404, 16-1-410, and 16-1-411, MCA. The program exists under state mandates.

Funding

Funding for the Operations Division is from the general fund, liquor enterprise funds, and old fund liability tax (OFLT) revenues. See the funding summary under the Director's Office for further discussion of the liquor enterprise funds.

LFD Issue **- According to the Montana State Code Commissioner, OFLT revenues may not legally be used to fund the Operations Division. Legislation to be introduced (LC 65) will clarify the use of OFLT funds and provide for the deposit of 1.2 percent of OFLT revenues to the general fund. If this legislation passes, general fund should replace OFLT funds in this program.**

Executive Present Law

5801 02 **Department of Revenue** **Operations Division** Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	186,286	188,676
02		Inflation/Deflation	(20,568)	(27,556)
03		Fixed Costs	40,302	49,120
		Total Statewide Adjustments	$206,020	$210,240
Significant Present Law Adjustments				
04	79197	Software License Upgrades	149,560	0
05	79199	Equipment - Computers - Replac	(5,284)	(5,284)
06	91001	Computer Processing Growth	18,681	22,584
07	91002	Decrease Interest Expense	(6,678)	(6,678)
08	91003	Steamboat Wiring Upgrade	5,500	0
09	91004	Staff Recruiting	(8,567)	(8,567)
10	91005	Computer Equipment In Base	(26,505)	(26,505)
		Total Significant PL Adjustments	$126,707	($24,450)
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$332,727	$185,790

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - The net increases in personal services are comprised of statewide adjustments for annualization of the fiscal 1997 pay plan, FICA and Medicare taxes, workers' compensation, and other standard adjustments.

***LFD Issue* - The percentage net increases over base year expenditures for personal services are 9 percent in fiscal 1998 and 10 percent in fiscal 1999. These percentage increases cannot be completely explained by "standard adjustments".**

4) Software License Upgrades - The increase of $149,560 in fiscal 1998 provides for software and memory upgrades for personal computers that are not included in the replacement cycle during the 1999 biennium. Uniform platforms that meet state standards are necessary to achieve timeliness and efficiency in data processing.

***LFD Comment* - The Information Technology Advisory Committee (ITAC) identified "minimum state standards" for state computer equipment so that as agencies replaced equipment, they would all purchase the minimum level of technology necessary to run statewide computer programs efficiently. Though state agencies never adopted the "minimum state standard" program officially, some programs are requesting new equipment to meet the identified minimum standards.**

5) Equipment - Computers - Replacement - Replacement equipment is a net reduction of $5,284 from the base each year and includes 23 computer workstations, one portable laptop computer, two network servers, and five printers each year.

6) Computer Processing Growth - The increases of $18,681 in fiscal 1998 and $22,584 in fiscal 1999 continue the 30 percent annual growth rate trend in state mainframe processing utilization for this program. The net increases are the result of applying statewide deflation factors of 33 percent and 46 percent to the projected growth above fiscal 1996.

***LFD Comment* - The 30 percent annual growth rate in mainframe usage claimed by this division and others in the Department of Revenue is higher than the growth rate in mainframe usage for most other state agencies. Agency officials believe the high growth rate will continue well into the future. At this rate, mainframe usage will double every 29 months, with correspondingly high increases in mainframe costs.**

7) Decrease Interest Expense - The decrease of $6,678 each year is due to the elimination of installment interest expenditures incurred during the base year.

8) Steamboat Wiring Upgrade - The increase of $5,500 in fiscal 1998 is to upgrade substandard network wiring for the department servers located in the Steamboat Block building. The upgrade will provide capacity for graphics and image transfer across the network and will bring the wiring infrastructure up to an acceptable industry standard.

9) Staff Recruiting - One-time staff recruiting costs of $8,567 are a decrease from the base.

10) Computer Equipment in Base - There is a decrease of $26,505 from the base for computer equipment charged to operating expense categories in fiscal 1996.

Other Base Adjustments - Numerous small increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

5801 02
Department of Revenue **Operations Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Fund Change From Proprietary		287,329	(287,329)			269,681	(269,681)	
02 Support For Electronic Filing	0.75	34,970		34,970	1.00	44,703		44,703
Total For New Proposals	0.75	$322,299	($287,329)	$34,970	1.00	$314,384	($269,681)	$44,703

Executive New Proposals

1) Funding Change from Proprietary to General Fund - In the 1997 and preceding biennia, the Operations Division Program has been primarily funded with general fund, old fund liability tax (OFLT) revenues, and approximately 10 percent from liquor enterprise funds. The use of liquor enterprise funds is virtually synonymous with the use of general fund insofar as liquor enterprise profits are transferred to the general fund; therefore, a decrease in the use of liquor enterprise funds and an increase in general fund results in a zero net impact to the general fund. The passage of HB 576 by the 1995 legislature removed certain proprietary accounts, including the liquor enterprise account, from the list of accounts requiring appropriations. This proposal to increase general fund and decrease liquor enterprise funds by $287,329 in fiscal 1998 and to increase general fund and decrease liquor enterprise funds by $269,681 in fiscal 1999 recognizes that it is inconsistent to appropriate a portion of a non-appropriated proprietary account in the general appropriations act and that the proposed funding switch has no net impact on the general fund.

2) Support for Electronic Filing - The increase of 0.75 FTE and $34,970 in fiscal 1998 and 1.00 FTE and $44,703 in fiscal 1999 is to fund a technical support position for the electronic tax filing effort. The position, budgeted as a grade 18, will be responsible for investigation and application of current technology, direct help through interaction with the taxpayer, preparation of necessary procedures, and documentation for the electronic tax filing process.

LFD Issue **- Electronic filing has been done on a limited, pilot basis for several years. The legislature may wish to request a report from the department on the projected long-term costs and benefits of electronic filing. If potential benefits significantly exceed costs, the legislature may wish to ask the department how it will increase taxpayer utilization of electronic filing.**

5801 05 **Department of Revenue** Program Proposed Budget				**Liquor Division**				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	9.00	0.00	0.00	9.00	0.00	0.00	9.00	9.00
Personal Services	212,587	19,685	0	232,272	19,685	0	232,272	464,544
Operating Expenses	37,161	7,987	45,000	90,148	7,963	45,000	90,124	180,272
Equipment	9,523	(4,523)	0	5,000	(4,523)	0	5,000	10,000
Total Costs	$259,271	$23,149	$45,000	$327,420	$23,125	$45,000	$327,396	$654,816
General Fund	259,271	23,149	45,000	327,420	23,125	45,000	327,396	654,816
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$259,271	$23,149	$45,000	$327,420	$23,125	$45,000	$327,396	$654,816

Program Description

The Liquor Division consists of two functional areas that control alcoholic beverage sales and distribution and the licensing of alcoholic beverage manufacturers, wholesalers, and retailers in Montana (Title 16, MCA).

1) The distribution function provides consumers and retail licensed dealers with distilled spirits and fortified wines through a system of retail liquor franchisees. The distribution function covers three areas of responsibility: the Supply Bureau, the customer service representative, and the liquor distribution accounting section. Supply Bureau activities include product procurement, new and existing product analysis, merchandise warehousing, retail liquor franchisee order assembling, merchandise shipment scheduling, and quarterly retail price list publishing. The customer service representative activities include franchise contract management, bid evaluation for selection of agency franchisees, and resolution of all problems related to daily franchise operations. The liquor distribution accounting activities include management of accounts payable, accounts receivable, and liquor inventories, regulating the process used to prepare franchisee product orders, and merchandise invoice and freight claim auditing.

2) The Licensing Bureau determines applicant qualifications for manufacture, wholesale, and retail licenses, issues licenses, and processes annual renewals of licenses and registrations.

The Liquor Division has typically been funded through two appropriations: 1) an appropriation in the general appropriations act that funds personal services and operating expenses of 9.00 FTE associated with the liquor licensing program; and 2) a language appropriation in the general appropriations act that funds 14.00 FTE and operating expenses associated with the liquor warehouse, stores, and purchasing functions.

LFD Comment **- Though the liquor merchandising program (warehouse, stores, and purchasing) has "typically" been funded through a language appropriation, it has not typically employed 14.0 FTE. Until passage of HB 574 by the 54th Legislature, the program employed 96.0 FTE. The language appropriation also funded the central administration program and its 2.0 FTE.**

Following passage and approval of HB 574 in the 1995 legislative session, retail liquor operations were privatized during fiscal 1996. Consequently, expenses for the personal services of 82.00 FTE, the operations of 26 state-owned liquor stores, and the central administration function were eliminated. In the Governor's Executive Budget for the 1999 biennium, the present law base includes general fund support for the Licensing Bureau, while the liquor distribution operation is funded entirely from the non-appropriated liquor enterprise proprietary account.

LFD Comment - **Most central administration program expenditures were eliminated by the end of fiscal 1996, but the 1.0 FTE administration director position will not be eliminated until the end of fiscal 1997.**

The Liquor Division operates the state liquor warehouse and distribution system, administers alcohol beverage tax programs and licensing pursuant to Title 16, Chapters 1 through 6, MCA. The program exists under state mandates.

Funding

The programs of the Liquor Division are funded from the general fund and from the liquor enterprise proprietary fund. The Liquor Division Licensing Bureau was formerly funded with liquor enterprise funds, but as a result of an audit recommendation made by the Legislative Audit Division, funding for the bureau was changed in the 1997 biennium; the bureau is now funded from the general fund. Since liquor enterprise profits are transferred to the general fund, the money the Licensing Bureau used to receive from the liquor enterprise fund now goes to the general fund. This amount necessarily equals the amount the Licensing Bureau now receives from the general fund to make up for the loss of liquor enterprise funds, so this funding change has had no net effect on the general fund balance. Division administration and the liquor distribution operation are funded from liquor enterprise funds that the legislature does not appropriate.

For a discussion of the liquor distribution operation, see the "Proprietary Rate Settings and State Fund" section o f the Executive Budget/LFD Budget Analysis.

Executive Present Law

5801 05 Department of Revenue Liquor Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	21,174	21,174
02		Inflation/Deflation	(937)	(961)
03		Fixed Costs	7,920	7,920
		Total Statewide Adjustments	$28,157	$28,133
Significant Present Law Adjustments				
04	79199	Equipment - Computers - Replac	(4,523)	(4,523)
05	91001	Overtime	(1,489)	(1,489)
06	91002	Liquor Licensing System	1,004	1,004
		Total Significant PL Adjustments	($5,008)	($5,008)
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$23,149	$23,125

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Replace Computer Equip - The decrease of $4,523 each year from the base provides for the replacement of two personal computers and one printer annually. The total replacement costs are $5,000 each year.

5) Overtime - The decrease of $1,489 each year is attributable to overtime expenditures in the base year that are not expected to continue in the 1999 biennium.

6) Liquor Licensing System - The increase of $1,004 each year recognizes the 12 percent increase in contracted vendor payments for maintenance and support of the liquor licensing system that occurred in fiscal 1997. The information management system is shared with the Department of Justice to coordinate data for the investigation and licensing functions for gambling and liquor. The Liquor Division is responsible for 31 percent of the costs of the shared system.

Other Base Adjustments - Numerous small increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

5801 05
Department of Revenue **Liquor Division**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Fund Change From Proprietary		45,000		45,000		45,000		45,000
Total For New Proposals		$45,000		$45,000		$45,000		$45,000

Executive New Proposals

1) Fund Change from Proprietary to General Fund - The expenditures represented in this proposal are associated with the general fund-supported functions in the Licensing Bureau. These expenditures correspond with expenditures appropriated from the liquor enterprise fund in a language appropriation in HB 2 in the base year. The use of liquor enterprise funds is virtually synonymous with the use of general fund insofar as liquor enterprise profits are transferred to the general fund; therefore, a decrease in the use of liquor enterprise funds and an increase in the use of general fund results in a zero net impact on the general fund.

5801 06 Department of Revenue Program Proposed Budget				Income Tax				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	127.15	1.00	3.00	131.15	1.00	4.00	132.15	131.15
Personal Services	3,256,083	380,593	76,800	3,713,476	389,744	102,398	3,748,225	7,461,701
Operating Expenses	1,659,712	291,306	267,136	2,218,154	270,707	322,800	2,253,219	4,471,373
Equipment	54,582	54,418	26,656	135,656	54,418	0	109,000	244,656
Debt Service	2,276	(2,276)	0	0	(2,276)	0	0	0
Total Costs	$4,972,653	$724,041	$370,592	$6,067,286	$712,593	$425,198	$6,110,444	$12,177,730
General Fund	4,335,802	638,432	243,200	5,217,434	628,381	299,520	5,263,703	10,481,137
State/Other Special	636,851	85,609	127,392	849,852	84,212	125,678	846,741	1,696,593
Total Funds	$4,972,653	$724,041	$370,592	$6,067,286	$712,593	$425,198	$6,110,444	$12,177,730

Program Description

The Income Tax Division administers and enforces the Montana individual income tax laws, including employer withholding and payroll taxes. It also is responsible for miscellaneous taxes not administered by other agencies or divisions including tobacco, accommodations, inheritance, estate, emergency telephone, various tax "check-offs", and the old fund liability tax (OFLT). The division also trains volunteers to assist others in completing returns, conducts small business clinics to inform employers of the requirements for state tax withholding, and manages training programs on changes in tax laws and regulations for tax practitioners.

The Income Tax Division administers tax programs as required by Title 15, Chapters 1, 25, 30, 32, 33, 50, 53, 60, and 65, MCA; Title 30; 72-14-1 through 3, MCA; and Title 72, Chapter 16, MCA; 70-9-105, MCA; Title 16, Chapter 11, Parts 1-2, MCA; Title 69, Chapter 1, Part 4, MCA; Title 10, Chapter 4, MCA; Title 16, Chapter 10, Part 2, MCA; Title 15, Chapter 53, MCA; 17-3-301, MCA; and Title 35, Chapter 18, MCA. The program exists under state mandates.

Funding

The Income & Miscellaneous Tax Division is funded primarily from the general fund and from state special revenue derived from various taxes. Each tax contributes to program funding in approximate proportion to the level of effort required for its administration and collection. These miscellaneous tax programs include (in order of appropriation amounts) OFLT, cigarette tax, accommodations tax, unclaimed property, various tax return "check-offs", and the emergency telephone tax.

LFD Issue **- According to the Montana State Code Commissioner, it is not legal to use OFLT revenues to fund the Income & Miscellaneous Tax Division. Legislation to be introduced (LC 65) will clarify use of OFLT funds and provide for the deposit of 1.2 percent of the OFLT to the general fund. If this legislation passes, general fund should replace OFLT in this program. In addition, the Legislative Finance Committee has recommended that the cigarette tax be de-earmarked to the general fund. The cigarette tax provided $103,193 for the Department of Revenue in fiscal 1996.**

Executive Present Law

5801 06 Department of Revenue Income Tax				
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	380,593	389,744
02		Inflation/Deflation	(125,404)	(173,388)
03		Fixed Costs	101,360	103,441
		Total Statewide Adjustments	$356,549	$319,797
Significant Present Law Adjustments				
04	79199	Equipment - Computers - Replac	54,418	54,418
05	91001	Reduce Equipment In Base	(9,696)	(9,696)
06	91002	Mainframe Processing Growth	298,575	323,569
07	91003	Medical Care Savings Accounts	1,676	1,676
08	91008	Lease Replacement Vehicles	3,588	3,298
09	91031	Cigarette Stamps	15,000	15,000
10	91032	Sbas Entry & Edit Credit	4,139	4,139
		Total Significant PL Adjustments	$367,700	$392,404
Other Base Adjustments			($208)	$392
		Grand Total Present Law Adjustments	$724,041	$712,593

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Equipment - Computers - Replacement - Replacement equipment is a net increase of $54,418 from the base each year and includes 44 personal computers, two notebook personal computers, two FAX machines, and 12 printers per year. The total annual replacement cost is $109,000.

5) Reduce Equipment in Base - The decrease of $9,696 each year is due to the removal of computer and office equipment from the base operating expense categories. Replacement equipment is provided for in item 4) above.

6) Mainframe Processing Growth - The increases of $298,575 in fiscal 1998 and $323,569 in fiscal 1999 continue the nearly 30 percent annual growth rate trend in state mainframe processing utilization for this program. The base year expenditures are augmented by $137,768 for actual but unpaid utilization. This adjustment base amount is increased by a factor of 60 percent for fiscal 1998 and 90 percent for fiscal 1999, resulting in net compound annual increases of somewhat less than 30 percent. The net increase amounts are the result of applying statewide deflation factors of 33 percent and 46 percent to the projected growth above fiscal 1996.

LFD Comment **- With a growth rate of 30 percent, the division's mainframe processing growth will double every 29 months. Agency officials were not able to pinpoint the reasons for the increase in mainframe usage and were therefore unable to propose long-term solutions to the growth problem. Officials said that the measures they are implementing to mitigate the problem, such as removing online access to old tax forms, are at best stopgap measures.**

7) Medical Care Savings Accounts - The increase of $1,676 each year is due to the addition of operating expenses related to the implementation of HB 560 that authorized medical care savings accounts. The expenditures authorized by the bill were for fiscal year 1997 because the deductions created by the bill are effective for 1996 income tax returns to be filed during calendar year 1997. The personal services increases include the annualization of 1.00 FTE authorized by HB 560 as 0.50 FTE beginning January 1, 1997.

8) Lease Replacement Vehicles - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $6,090 in fiscal 1998 for two sedans and $5,800 in fiscal 1999 to continue the lease. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain reductions of $2,502 each year of the biennium for gasoline

and maintenance cost savings. The net amounts of $3,588 in fiscal 1998 and $3,298 in fiscal 1999 are reflected in the table. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

9) Cigarette Stamps - The increase of $15,000 each year is for approximately 2,150 rolls, or 75 percent of the amount, of cigarette stamps approved in the base level. The increase is due to a relatively low base year and current stamp prices.

10) SBAS Entry & Edit Credit - The increase of $4,139 each year for the Statewide Budgeting and Accounting System (SBAS) on-line entry and edit charges is actually the reversal of a credit balance in this object in the base year.

Other Base Adjustments - Numerous small increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

5801 06
Department of Revenue **Income Tax**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Printing Costs		117,000		117,000		117,000		117,000
02	Abandon Property Pgm	3.00		122,392	122,392	4.00		120,678	120,678
03	Telefile		126,200		126,200		182,520		182,520
04	Universal Access Fund Admin			5,000	5,000			5,000	5,000
	Total For New Proposals	3.00	$243,200	$127,392	$370,592	4.00	$299,520	$125,678	$425,198

Executive New Proposals

1) Printing Costs - The increase in general fund of $117,000 each year is due to projected continuing price increases in the cost of paper and printing associated with the production of individual income tax booklets and additional scannable coupons for the remittance processing system (RPS). There has been a price increase trend for these products since fiscal 1995. The base year expenditures were $307,000 which was a significant increase above the fiscal 1995 total of $154,000.

2) Abandon Property Program - The increase of 3.00 FTE and $122,392 in fiscal 1998 and 4.00 FTE and $120,678 in fiscal 1999 is funded by state special revenue from the unclaimed property account. The additional staff will perform the following activities: educate Montana holders of abandoned property concerning reporting obligations, audit Montana holders to ensure compliance with abandoned property laws, conduct searches to locate lost owners and reunite them with their property, and conduct public outreach campaigns to raise the overall public awareness of abandoned property laws.

LFD Comment **- The Income Tax Division will fund this new proposal from the proceeds of the abandoned property program. The state takes custody of abandoned property (mostly bank accounts showing no account activity for several years) and must make a concerted effort to find the owner. The state can take ownership of the abandoned property if the owner is not located.**

3) Telefile - The increase in general fund of $126,200 in fiscal 1998 and $182,520 in fiscal 1999 is for the ongoing support of a pilot project to accept basic short form state income tax returns filed by telephone. The pilot project will begin January 1, 1997, and funding will provide for marketing and public education for this alternative filing method to obtain adequate

utilization and expansion during subsequent years.

LFD Comment **- The division believes it will be possible for between 70,000 and 100,000 taxpayers to file their tax returns by telephone and anticipates that the program will reduce paper and printing costs and overtime requirements during tax season.**

4) Universal Access Fund Administration - The increase of $5,000 each year in state special revenue from the universal access fund account is intended to provide for forms revision, additional printing expenses, and public education expenses associated with the administration of the collection of the new universal access fund revenues. The establishment of this source of revenue and the new account is based upon legislation recommended by the Blue Ribbon Telecommunications Task Force. The revenue source will be based on the retail revenues for all intrastate telecommunications services as defined in 15-53-101 (b), MCA, and may be collected in conjunction with the existing telephone license tax. The universal access fund will be administered by the Public Service Commission and will be used to further the goal of universal access to advanced telecommunications services in Montana. This proposal is contingent upon the passage of legislation during the 1997 legislative session.

Executive Language Recommendation

The following language is recommended for new proposal number four:

> "The appropriation in item X for universal access fund administration is contingent upon the passage and approval of legislation by the 1997 legislature."

5801 07 Department of Revenue Program Proposed Budget				Corporation Tax				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	32.93	0.00	0.00	32.93	0.00	0.00	32.93	32.93
Personal Services	1,078,495	111,077	0	1,189,572	113,151	0	1,191,646	2,381,218
Operating Expenses	531,227	(101,064)	10,000	440,163	(100,905)	10,000	440,322	880,485
Equipment	14,404	22,596	0	37,000	21,596	0	36,000	73,000
Total Costs	$1,624,126	$32,609	$10,000	$1,666,735	$33,842	$10,000	$1,667,968	$3,334,703
General Fund	1,368,902	29,116	10,000	1,408,018	29,328	10,000	1,408,230	2,816,247
State/Other Special	30,142	3,221	0	33,363	3,247	0	33,389	66,753
Federal Special	225,082	272	0	225,354	1,267	0	226,349	451,703
Total Funds	$1,624,126	$32,609	$10,000	$1,666,735	$33,842	$10,000	$1,667,968	$3,334,703

Program Description

The Natural Resource and Corporation Tax Division administers various taxes including corporation license tax, oil and gas production tax, coal severance tax, metal mines tax, gross and net proceeds tax, local government severance tax, electrical energy license tax, and the resource indemnity and ground water assessment tax. The division also administers the state and federal royalty audit programs related to mineral production from state and federal lands located in Montana.

The division administers tax programs as required by Title 15, Chapters 31-33, 35-38, 51, and 59, MCA. The division also operates federal royalty audits per 30 USC Section 1735. The program operates under state and federal mandates.

Funding

The Natural Resource and Corporation Tax Division is funded primarily from the general fund. The program receives funding from the U.S. Department of Interior for royalty audits associated with federal lands. The present law base also includes state special revenue from oil and gas well tax revenues.

5801 07 Department of Revenue Performance Based Budget				Corporation Tax				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	32.93	0.00	32.93	32.93	0.00	32.93	32.93
Performance Based	1,624,126	(187)	10,000	1,633,939	2,046	10,000	1,636,172	3,270,111
Total Costs	$1,624,126	($187)	$10,000	$1,633,939	$2,046	$10,000	$1,636,172	$3,270,111
General Fund	1,368,902	10,158	10,000	1,389,060	11,370	10,000	1,390,272	2,779,331
State/Other Special	30,142	(417)	0	29,725	(391)	0	29,751	59,477
Federal Special	225,082	(9,928)	0	215,154	(8,933)	0	216,149	431,303
Total Funds	$1,624,126	($187)	$10,000	$1,633,939	$2,046	$10,000	$1,636,172	$3,270,111

Performance-Based Budget

The Corporation and Natural Resource Tax Division is one of 16 state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

"The appropriation provided for the natural resource and corporation tax division is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

Goal 1: To promote fair and consistent treatment of all taxpayers through uniform application of tax law.

Objective 1: Expand taxpayer surveys to include field audit, office audit, correspondence, customer service, and electronic filings by June 30, 1999.

Performance Measures:

1) Develop quality service questionnaires by June 30, 1997.

2) Implement the use of quality service questionnaires and compile results which will be statistically valid and will provide a basis for future changes.

Objective 2: Improve audit efficiency and create a more equitable selection process by increased use of risk assessment and apportionment data analysis.

Performance Measures:

1) By June 30, 1998, 50 percent of all audits selected will be made through the improved audit selection process by using oil and natural gas purchaser information database and statistical information for producers. Corporation tax audits will be selected through the use of apportionment data analysis available on the database.

2) By June 30, 1999, 80 percent of all audits will be selected by the use of the new selection process.

Goal 2: To make conducting business with the department as simple and pleasant as possible.

Objective 1: Perform a biennial review and make recommendations for streamlining and/or simplifying natural resource and corporation tax statutes to the 1999 legislature.

Performance Measures:

1) By June 30, 1998, survey all producers to determine whether the reporting and payment of oil and natural gas production taxes by the first purchaser is the most appropriate or efficient method.

2) By June 30, 1997, establish a working group of producers, royalty owners, county and school officials, and other interested citizens to study further consolidation and simplification of the tax rate structure for oil and natural gas production.

3) By June 30, 1998, develop a proposal to present to the 1999 legislature that addresses the issues developed by the working group.

4) Meet with CPAs and other interested groups throughout the biennium to discuss proposals for changes in statutes or filing requirements.

Objective 2: Timely response to taxpayer request for services.

Performance Measures:

1) Issue 95 percent of all refunds of overpayments within 15 working days of receipt.

2) Issue 95 percent of all requests for tax certificates within 3 days of receipt.

3) Respond to 95 percent of taxpayer requests for information within 5 days of receipt.

	95	96	97	98	99
Refunds (days)	30	20	20	15	15
Certificates (3 days)	80%	80%	90%	95%	95%
Info. Requests (5 days)	80%	80%	80%	95%	95%

Goal 3: To continually seek greater efficiency in agency programs, helping to ensure that resources are used wisely.

Objective 1: Increase the average number of field audits completed each year of the biennium without an increase in staff.

Performance Measures:

1) Complete audits of 35 natural resource companies (includes oil, natural gas, coal, metals, and industrial minerals producers) each year of the biennium.

2) Complete 35 corporation license tax audits each year of the biennium.

3) Reduce by 25 percent the amount of time spent by audit staff in the corporation tax bureau on non-audit activities for each year of the biennium.

4) Achieve a 5 percent reduction in average hours spent on completing field audits during each year of the biennium.

	95	96	97	98	99
Average # of Audits Completed	30	30	30	35	35
Non-Audit Activities (%)	34%	34%	34%	25%	25%
Time spent on each audit (hrs)	320 hrs	320 hrs	320 hrs	304 hrs	304 hrs

Goal 4: To maintain and value a high-quality workforce

Objective 1: Seek out job specific additional training opportunities.

Objective 2: Expand customer feedback to address more than field audit performance.

Goal 5: To foster a positive relationship with government and citizen groups impacted by taxation policy.

Objective 1: Seek non-corporation, non-natural resource-producing public input and input from impacted counties and schools prior to regulatory or statutory changes.

LFD Issue **- The objective of performance-based budgeting is to tie changes in the amount of money a program receives to measurable changes in program performance. In this way, should budget makers want to change performance levels, they can know what such changes will cost and adjust future budgets accordingly. This performance-based budget is thorough in its goal statements and has made good progress in achieving its goal of timely response to taxpayer request for services, but it makes no attempt to tie its goals to budgetary requirements. Performance-based budgets should give a better indication of how changes in budget levels would affect performance results. The legislature would then have a better idea how to adjust the program budget.**

Executive Present Law

The present law budget for the Corporation and Natural Resource Tax Division is comparable to the fiscal 1996 base with the following adjustments:

Operating Expenses - The increases of $16,875 in fiscal 1998 and $18,558 in fiscal 1999 (#5 in the present law adjustment table) are for expenses associated with participation in the Multi-state Tax Commission. The increases are funded approximately 97.9 percent from the general fund and 2.1 percent from the state special revenue fund. There also is an increase

5801 07 Department of Revenue Corporation Tax			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	111,077	113,151
02		Inflation/Deflation	(8,430)	(11,276)
03		Fixed Costs	(69,575)	(68,253)
		Total Statewide Adjustments	$33,072	$33,622
Significant Present Law Adjustments				
04	79199	Equipment - Computers - Replac	22,596	21,596
05	79281	Multistate Tax Commission	16,875	18,558
06	79282	Reduce Computer Equipment	(50,134)	(50,134)
07	79283	Federal Audit Authority	10,200	10,200
		Total Significant PL Adjustments	($463)	$220
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$32,609	$33,842

of $10,200 each year for additional federal royalty audit funds authority for contracted services (#7 in the present law adjustment table). The additional authority will provide for complete funding of the allowable audit supervisor costs in accordance with terms of the federal contract. There are annual decreases of $50,134 from the operating base for computer equipment replacement, repair, and maintenance incurred during fiscal 1996 (#6 in the present law adjustment table). The funding split for the decreases is 97.9 percent general fund and 2.1 percent state special revenue.

Equipment - There are net increases of $22,596 in fiscal 1998 and $21,596 in fiscal 1999 for the personal computer replacement cycle (#4 in the present law adjustment table). These adjustments are apportioned to general fund in the amount of $18,958 in fiscal 1998 and $3,638 in fiscal 1999, and to federal special revenue in the amount of $3,638 each year.

5801 07
Department of Revenue **Corporation Tax**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Printing Costs - Pbb		10,000		10,000		10,000		10,000
Total For New Proposals		$10,000		$10,000		$10,000		$10,000

Executive New Proposal

The new proposal is an increase of $10,000 each year in general fund for printing expenses to provide for scannable forms and coupons and a booklet tax form for corporate tax filings. This is expected to provide more efficient service to the taxpayers in the areas of timely processing of payments, refunds, and tax certificates.

LFD Comment - The new proposal is part of the performance-based budget.

5801 08 Department of Revenue Program Proposed Budget				Property Valuation				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	375.56	0.00	0.00	375.56	0.00	0.00	375.56	375.56
Personal Services	10,485,808	884,305	0	11,370,113	905,980	0	11,391,788	22,761,901
Operating Expenses	2,519,848	6,918	65,394	2,592,160	97,414	64,481	2,681,743	5,273,903
Equipment	99,304	219,296	16,560	335,160	219,296	0	318,600	653,760
Benefits and Claims	0	0	0	0	0	0	0	0
Debt Service	225,455	(225,455)	0	0	(225,455)	0	0	0
Total Costs	$13,330,415	$885,064	$81,954	$14,297,433	$997,235	$64,481	$14,392,131	$28,689,564
General Fund	13,293,819	881,660	81,954	14,257,433	993,831	64,481	14,352,131	28,609,564
State/Other Special	36,596	3,404	0	40,000	3,404	0	40,000	80,000
Total Funds	$13,330,415	$885,064	$81,954	$14,297,433	$997,235	$64,481	$14,392,131	$28,689,564

Program Description

The Property Valuation Division performs property appraisal and assessment functions statewide. Specific duties are: 1) completing reappraisal of all real property in accordance with the statutory time schedule; 2) valuing new construction and land use changes; 3) assessing personal property each year; 4) auditing property tax returns to ensure all taxable property is reported; 5) centrally valuing railroad, public utility, and airline properties; 6) considering all requests for property tax exemptions and reductions; 7) defending the department in tax appeals before county and state tax appeal boards and the courts; and 8) conducting schools for appraisal and assessment staff.

The Property Valuation Division operates statewide property and appraisal functions as required by Title 15, Chapters 7, 8, and 23, MCA. The program operates under state mandates.

Funding

The program is funded entirely from the general fund except for $40,000 each year of state special revenue from the Property Value Improvement Fund.

5801 08 Department of Revenue Property Valuation			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	884,305	905,980
02		Inflation/Deflation	(63,367)	(88,556)
03		Fixed Costs	91,035	116,877
		Total Statewide Adjustments	$911,973	$934,301
Significant Present Law Adjustments				
04	79199	Equipment - Computers - Replac	219,296	219,296
05	91001	Leased Vehicles Replacement	21,025	37,952
06	91002	Bevs/Mods Mainframe Processing	157,966	170,394
07	91003	Appraisal & System Manuals	10,815	55,960
08	91004	Leased Vehicles 1997 Biennium	57,000	42,749
09	91005	Retirement Purchase Payments	(20,351)	(20,351)
10	91006	Camas Debt Service	(205,104)	(205,104)
11	91007	Base Computers & Software	(311,401)	(311,401)
12	91008	General Expenditures	0	0
13	91009	Staff Recruiting	(8,952)	(8,952)
14	91010	Rent Non-Government Bldgs	17,085	22,492
15	91011	Maintenance Contracts	17,138	17,138
		Total Significant PL Adjustments	($45,483)	$20,173
Other Base Adjustments			$18,574	$42,761
		Grand Total Present Law Adjustments	$885,064	$997,235

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Equipment - Computers - Replacement - Replacement equipment is a net increase of $219,296 from the base each year and includes approximately 109 personal computers and 41 printers each year.

LFD Comment **- The offsetting reduction of computer equipment from the base is made in item 11 below.**

5) Leased Vehicles Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $26,625 in fiscal 1998 for six pickups and one sedan and $29,552 in fiscal 1999 for nine pickups and one sedan. In addition, there is $22,000 in fiscal 1999 to continue the first year vehicles. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain reductions of $5,600 in fiscal 1998 and $13,600 in fiscal 1999 for gasoline and maintenance cost savings. The net cost is shown on the table. Refer to the Department of Transportation State Motor Pool narrative for the statewide information on leased vehicles.

6) BEVS/MODS Mainframe Processing - The increases of $157,966 in fiscal 1998 and $170,394 in fiscal 1999 continue an estimated 30 percent annual growth rate trend in state mainframe processing utilization for the Business Equipment Valuation System (BEVS) and Montana Ownership Database System (MODS). The base upon which the growth trend is calculated includes an additional $61,526 in unpaid charges incurred during fiscal 1996 and an adjustment for increased on-line usage due to the development of an on-line data transfer link during the latter part of the base year. The net increases are the result of applying statewide deflation factors of 33 percent and 46 percent to the projected growth above fiscal 1996.

LFD Comment **- The 30 percent annual growth rate in mainframe usage claimed by this division and others in the Department of Revenue is higher than the growth rate in mainframe usage for most other state agencies. Agency personnel were unable to explain why the growth rate is this high. The legislature may wish to enquire of the department how long this growth rate is expected to continue. If the division receives the $23.95 million worth of computer system upgrades contained in the Department of Revenue portion of the Information Technology (IT)bonding proposal, mainframe usage requirements could change. The legislature may want to ask the department how its mainframe usage requirements will change if the IT bonding proposal is approved.**

7) Appraisal and System Manuals - The increase of $10,815 in fiscal 1998 for printing is to provide updates to the developed appraisal manual and to provide 50 copies of the updated manual available for taxpayers, tax representatives, and attorneys. The increase of $55,960 in fiscal 1999 for printing will provide for 521 total updated appraisal manuals and 190 sets of system, operations, and procedures manuals for staff, county commissioners, tax appeal boards, taxpayers, and tax representatives.

8) Leased Vehicles 1997 Biennium - The increase of $57,000 in fiscal 1998 and $42,749 in fiscal 1999 is to continue the leased vehicle agreement with the State Motor Pool for leases entered into during fiscal 1996 and 1997. Ten vehicles were leased beginning in the fourth quarter of fiscal 1996 and another ten were leased during July, 1996. The twenty vehicles are assumed to have average lease costs of $4,000 per year in fiscal 1998 and the increase is net of $700 per vehicle for estimated gasoline and repair and maintenance expenses removed from the base for expenses incurred prior to the inception of the leases. The average lease cost for fiscal 1999 is estimated at $3,250 per vehicle less estimated gasoline and repair and

maintenance of $700 each.

9) Retirement Purchase Payments - The decrease of $20,351 each year is attributable to interest payments in the base year on the installment purchase of service years for employees who opted to retire in fiscal 1994 under terms of the early retirement bill (HB 517). The interest expenditures are not budgeted, in accordance with the established policy.

10) CAMAS Debt Service - The decrease of $205,104 each year is attributable to debt service payments in the base year relating to the Computer Assisted Mass Appraisal System (CAMAS) that do not continue into the 1999 biennium.

11) Base Computers and Software - The decrease of $311,401 each year is to remove the computers and software from the base. Provision for replacement equipment is made in item 1) above.

12) Staff Recruiting - The decrease of $8,952 each year is to remove staff recruiting expenditures from the base.

13) Rent Non-Governmental Bldgs - The increase of $17,085 in fiscal 1998 is for anticipated lease cost increases for office space in counties that have no space available in the courthouses or other county buildings. The increase in fiscal 1999 is $22,492 for the same purpose.

14) Maintenance Contracts - The increase of $17,138 each year is to maintain office and computer equipment maintenance in appraisal/assessment offices located in 56 counties.

Other Base Adjustments - Numerous small increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

5801 08
Department of Revenue **Property Valuation**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Office Rent - Cascade County Office		42,414		42,414		43,751		43,751
02	Leased Vehicles New		12,000		12,000		9,750		9,750
03	Safety Communication - Appraisers		10,980		10,980		10,980		10,980
04	Geographic Information System		16,560		16,560				
	Total For New Proposals		$81,954		$81,954		$64,481		$64,481

Executive New Proposals

1) Office Rent-Cascade County Office - The Executive Budget adds $42,414 in fiscal 1998 and $43,751 in fiscal 1999 to pay office space rent for the Cascade County office because the program was evicted from the rent-free location in the Cascade County Courthouse. Funding is 100 percent general fund.

2) Leased New Vehicles - The executive recommends that three pickups be obtained for this program through a State Motor Pool lease at a budgeted cost of $12,000 in fiscal 1998 and $9,750 in fiscal 1999. The vehicles will be based in Bozeman, Kalispell, and Billings for the property valuation division and be paid for with general fund. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

3) Safety Communications-Appraisers - This proposal adds $10,980 each year of the biennium to purchase safety/communication equipment for employees performing field work in the Property Assessment Division. Two-way radios provide immediate contact with the nearest law enforcement agency throughout the state through mutual coverage. Cell phones provide the ability for emergency contact through 911 and allow the ability to communicate with the office and with road help.

4) Geographic Information System - The Executive Budget adds $16,560 in fiscal 1998 to purchase computers, software, tablets, and plotter to maintain the cadastral database.

LFD Comment **- The Information Bonding Technology Proposal includes $4 million for GIS cadastral mapping. The legislature may wish to determine to what extent this new proposal would duplicate the GIS proposal contained in the Information Technology Bonding Proposal.**

Program Issue

Automated Mail Processing and Cashiering Equipment

The division received $234,930 in the 1997 biennium to purchase equipment to automate mail processing and cashiering. The equipment should eventually eliminate the need for contracted mail processing and cashiering services. In addition, the IT bonding proposal includes a request for $7.5 million to develop Revenue Processing Center. The legislature may wish to receive an update from agency officials about the progress of mail processing and cashiering automation and about the role automated processing would play in the Revenue Processing Center operations.

6101 00

Agency Proposed Budget

Department of Administration

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	93.46	0.00	(9.00)	84.46	0.00	(9.00)	84.46	84.46
Personal Services	2,913,945	410,288	(256,320)	3,067,913	420,130	(256,686)	3,077,389	6,145,302
Operating Expenses	1,667,722	182,293	(615,190)	1,234,825	87,305	(587,527)	1,167,500	2,402,325
Equipment	104,788	(56,768)	0	48,020	(66,308)	0	38,480	86,500
Local Assistance	1,885	48,000	0	49,885	48,000	0	49,885	99,770
Transfers	58,800	1	6,500,000	6,558,801	1	6,500,000	6,558,801	13,117,602
Total Costs	$4,747,140	$583,814	$5,628,490	$10,959,444	$489,128	$5,655,787	$10,892,055	$21,851,499
General Fund	3,108,874	311,777	2,008,470	5,429,121	247,913	2,008,470	5,365,257	10,794,378
State/Other Special	760,895	163,658	0	924,553	159,964	0	920,859	1,845,412
Federal Special	0	10,483	0	10,483	10,615	0	10,615	21,098
Capital Projects	58,800	1	0	58,801	1	0	58,801	117,602
Proprietary	818,571	97,895	(879,980)	36,486	70,635	(852,683)	36,523	73,009
Expendable Trust	0	0	4,500,000	4,500,000	0	4,500,000	4,500,000	9,000,000
Total Funds	$4,747,140	$583,814	$5,628,490	$10,959,444	$489,128	$5,655,787	$10,892,055	$21,851,499

Mission Statement

To centrally provide for other state agencies various service and control functions which generally result in cost savings, more effective management, or other benefits to employees and agencies.

Agency Description

The Department of Administration (DofA) provides centralized services for state agencies in the following areas: 1) accounting and financial reporting; 2) capitol complex building maintenance and security; 3) state bonded indebtedness administration; 4) state treasury services; 5) insurance coverage and Tort Claims Act administration; 6) systems development, telecommunications, and data processing; 7) personnel management and labor relations; 8) purchasing and surplus property administration; and 9) duplicating, mail, and messenger services. The department also administers the state Long-Range Building program, state employee group benefits program, and the various state retirement systems. In addition, the Board of Examiners, State Tax Appeal Board, Appellate Defender, Public Employees' Retirement Board, and the Teachers' Retirement Board are attached to the department for administrative purposes only. In the 1997 biennium, the state warrant writing and bad debt management functions were transferred to the department from the State Auditor's Office.

6101 00
Department of Administration **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	93.46	(9.00)	84.46	93.46	(9.00)	84.46	93.46	84.46
Personal Services	3,324,233	(256,320)	3,067,913	3,334,075	(256,686)	3,077,389	6,203,983	6,145,302
Operating Expenses	1,850,015	(615,190)	1,234,825	1,755,027	(587,527)	1,167,500	3,318,449	2,402,325
Equipment	48,020	0	48,020	38,480	0	38,480	151,136	86,500
Local Assistance	49,885	0	49,885	49,885	0	49,885	9,351	99,770
Transfers	58,801	6,500,000	6,558,801	58,801	6,500,000	6,558,801	117,601	13,117,602
Total Costs	$5,330,954	$5,628,490	$10,959,444	$5,236,268	$5,655,787	$10,892,055	$9,800,520	$21,851,499
General Fund	3,420,651	2,008,470	5,429,121	3,356,787	2,008,470	5,365,257	6,380,606	10,794,378
State/Other Special	924,553	0	924,553	920,859	0	920,859	1,641,062	1,845,412
Federal Special	10,483	0	10,483	10,615	0	10,615	0	21,098
Capital Projects	58,801	0	58,801	58,801	0	58,801	117,601	117,602
Proprietary	916,466	(879,980)	36,486	889,206	(852,683)	36,523	1,661,251	73,009
Expendable Trust	0	4,500,000	4,500,000	0	4,500,000	4,500,000	0	9,000,000
Total Funds	$5,330,954	$5,628,490	$10,959,444	$5,236,268	$5,655,787	$10,892,055	$9,800,520	$21,851,499

6101 03
Department of Administration — **Accounting & Management Support Program**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	31.92	0.00	(9.00)	22.92	0.00	(9.00)	22.92	22.92
Personal Services	1,107,864	62,768	(256,320)	914,312	67,513	(256,686)	918,691	1,833,003
Operating Expenses	939,954	58,924	(623,660)	375,218	(14,224)	(595,997)	329,733	704,951
Equipment	14,449	(7,609)	0	6,840	(14,449)	0	0	6,840
Local Assistance	0	48,000	0	48,000	48,000	0	48,000	96,000
Total Costs	$2,062,267	$162,083	($879,980)	$1,344,370	$86,840	($852,683)	$1,296,424	$2,640,794
General Fund	1,236,594	54,775	0	1,291,369	5,590	0	1,242,184	2,533,553
State/Other Special	7,102	(1,070)	0	6,032	0	0	7,102	13,134
Federal Special	0	10,483	0	10,483	10,615	0	10,615	21,098
Proprietary	818,571	97,895	(879,980)	36,486	70,635	(852,683)	36,523	73,009
Total Funds	$2,062,267	$162,083	($879,980)	$1,344,370	$86,840	($852,683)	$1,296,424	$2,640,794

Program Description

The Accounting and Management Support Program was created in fiscal 1994 through consolidation of the former Accounting and Management Support Division with the Director's Office. The new program consists of the following: 1) the Director's Office, which is responsible for overall supervision and coordination of agency programs and administratively-attached boards and agencies; 2) the Legal Unit, which is budgeted but not appropriated in the general appropriations act due to passage of HB 576 by the 1995 legislature, and which provides legal services to agency and administratively-attached programs; 3) the Accounting Bureau, which maintains the Statewide Budgeting and Accounting System (SBAS), establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, and prepares the state Comprehensive Annual Financial Report; and 4) the Management Support Bureau and Personnel function, which provides financial, budgeting, accounting, personnel, payroll, and data processing functions for the department. The data processing function administers all data processing functions of the department except those of the Information Services Division.

The Director's Office is mandated by the state law that created the Department of Administration. The Accounting Bureau is mandated by state law. Management support services and the Legal Unit are not specifically mandated by state law but are necessary for the effective and efficient execution of department statutory mandates. Division functions relating to the Cash Management Improvement Act are mandated by federal law.

Funding

This program is funded with general fund, state special revenue, and federal special revenue. General fund supports the functions of the Director's Office and a portion of the functions of the Accounting Bureau and the Management Support Bureau. State special revenue derived from fees charged for department-administered bond issues supports the general services of the state financial advisor, who is administratively attached to the program. The Accounting Bureau's costs of administering the federal Cash Management Improvement Act are reimbursed with federal special revenue from the U.S. Treasury Department.

Several program functions are funded with proprietary funds. The services of the Legal Unit are funded with non-appropriated proprietary funds, as are the costs the Accounting Bureau incurs in administering the bad debt function. The data processing function of the Management Support Bureau is also funded with non-

appropriated proprietary funds. The proprietary funds that support the network support unit and the warrant writer function are still appropriated by the legislature. The executive is recommending that funding for these functions be taken out of the HB 2 budget in the 1999 biennium.

For a discussion of the functions supported by non-appropriated proprietary funds and an analysis of the rate charges that support them, please refer to the "Proprietary Rate Setting and State Fund" section.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6101 03 Department of Administration Accounting & Management Support Program			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	62,768	67,513
02		Inflation/Deflation	(44,688)	(65,848)
03		Fixed Costs	36,690	(15,809)
		Total Statewide Adjustments	$54,770	($14,144)
Significant Present Law Adjustments				
04	79199	Computer Replace/Accounting Bu	(7,609)	(14,449)
05	91001	Systems Development	17,629	17,629
06	91002	Indirect Cost Network Support	12,134	12,143
07	91003	Postage-Warrant Writing	22,549	25,285
08	91004	Bank Charges-Warrant Writing	11,876	12,023
09	91020	Veteran's Headstones	48,000	48,000
		Total Significant PL Adjustments	$104,579	$100,631
Other Base Adjustments			$2,734	$353
		Grand Total Present Law Adjustments	$162,083	$86,840

4) Computer Replace/Accounting Bureau - Replacement personal computers (PCS) decrease by $7,609 in fiscal 1998 from the base year. Replacement PCS decrease by $14,449 in fiscal 1999 from the base year. All replacement equipment is funded by the general fund. The Executive Budget provides for $6,840 in fiscal 1998 for replacement of three personal computers. There is no replacement request in fiscal 1999.

5) Systems Development - The increase of $17,629 each year is to provide support services for the State Budgeting and Accounting System (SBAS) and the state Property Accountability Management System (PAMS). The services will be purchased from the Information Services Division in the Department of Administration. Funding is from the general fund.

6) Indirect Cost Network Support - The increase of $12,134 in fiscal 1998 and $12,143 in fiscal 1999 is the program allocation from the Network Support Unit proprietary cost pool. The Network Support Unit provides local area network support to all programs in the department except for the Information Services Division. Funding for the increase is from the general fund.

7) Postage - Warrant Writing - The increase of $22,549 in fiscal 1998 is due to projected volume increases in state mailer warrants and includes the 3 percent central postage processing inflation factor. The increase is $25,285 in fiscal 1999. The increase is funded from the warrant writing proprietary account.

8) Bank Charges - Warrant Writing - The increase of $11,876 in fiscal 1998 is due to annualization of the new bank charge for direct deposit. The base year includes eight months of these charges. The increase is $12,023 in fiscal 1999. Funding is from the warrant writing proprietary account.

9) Veteran's Headstones - The increase of $48,000 each year is for payments to counties for the costs of shipping and raising headstones for veterans. The headstones are provided by the federal government. The actual net increase above the base year is $41,000 as $7,005 was expended in the first year of authorization following passage and approval of HB 20 by the 1995 legislature. The funds are provided from the general fund.

LFD Comment **- The increase over base year expenditures is deceptively large, because the headstone program operated for only a small part of the year in fiscal 1996. Program managers expect total expenditures for the program to be $48,000 per year.**

Other Base Adjustments - Several small increases and decreases from the base comprise the net amounts for other base adjustments.

6101 03
Department of Administration — **Accounting & Management Support Program**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Funding Change - Network Support Unit	(3.00)		(112,001)	(112,001)	(3.00)		(112,028)	(112,028
02	Funding Change - Warrant Writer	(6.00)		(767,979)	(767,979)	(6.00)		(740,655)	(740,655
03	Pr								
	Total For New Proposals	(9.00)		($879,980)	($879,980)	(9.00)		($852,683)	($852,683

Executive New Proposals

1) Funding Change-Network Support Unit - The executive recommends a funding switch for 3.00 FTE and $112,001 in fiscal 1998 that will move the Network Support Unit from HB 2 appropriated proprietary funding to budgeted, non-appropriated proprietary funding in accordance with HB 576. The funding switch is for 3.00 FTE and $112,028 in fiscal 1999. The Network Support Unit meets the criteria required for non-appropriated proprietary funds in that it is funded 100 percent from proprietary funds in the 1999 biennium and does not require an appropriation of other funds for any part of its function.

2) Funding Change-Warrant Writer Unit - The executive recommends a funding switch for 6.00 FTE and $767,979 in fiscal 1998 that will move the Warrant Writer Unit from HB 2 appropriated proprietary funding to budgeted, non-appropriated proprietary funding in accordance with HB 576. The funding switch is for 6.00 FTE and $740,655 in fiscal 1999. The Warrant Writer Unit meets the criteria required for non-appropriated proprietary funds in that it is funded 100 percent from proprietary funds in the 1999 biennium and does not require an appropriation of other funds for any part of its function.

LFD Comment **- Both of these functions appear to meet all criteria required to remove funding from direct legislation appropriation. If these new proposals are adopted, the legislature must approve the rates the functions charge for their services.**

6101 04
Department of Administration — **Architecture & Engineering Program**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	17.50	0.00	0.00	17.50	0.00	0.00	17.50	17.50
Personal Services	511,480	157,932	0	669,412	159,155	0	670,635	1,340,047
Operating Expenses	203,556	23,333	0	226,889	19,046	0	222,602	449,491
Equipment	38,757	(16,537)	0	22,220	(18,237)	0	20,520	42,740
Total Costs	$753,793	$164,728	$0	$918,521	$159,964	$0	$913,757	$1,832,278
State/Other Special	753,793	164,728	0	918,521	159,964	0	913,757	1,832,278
Total Funds	$753,793	$164,728	$0	$918,521	$159,964	$0	$913,757	$1,832,278

Program Description

The Architecture and Engineering Division (A&E) manages remodeling and construction of state buildings. Functions include overseeing the architect/engineer interview and selection process; planning both new and remodel projects; administering and coordinating plan reviews; administering contracts with architects, engineers, and contractors; advertising, bidding, and awarding construction contracts; disbursing building construction payments; and providing design services for small projects. The A&E also formulates the state Long-Range Building Program plan for legislative consideration each session.

The division administers the state Long-Range Building Program in accordance with Titles 17 and 18, MCA. It operates under state mandates.

Funding

The division is funded from the long-range building cash account. The account receives a portion of the cigarette tax, interest on investments, energy savings realized through state building retrofits, and supervisory fees that the program collects for assisting with projects other than those authorized as part of the Long Range Building Program. A statutory appropriation (17-5-404, MCA) provides for the transfer of funds from the long-range building cash account to the state special revenue account that supports the program.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies.

6101 04
Department of Administration — Present Law Adjustments/Issues
Architecture & Engineering Program

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	160,953	162,176
02		Inflation/Deflation	1,779	423
03		Fixed Costs	15,706	14,320
		Total Statewide Adjustments	$178,438	$176,919
Significant Present Law Adjustments				
04	79199	Computer Replace/A & E	(18,237)	(18,237)
05	91401	Equipment Purchases	1,700	0
06	91402	Operating Adjustments	2,827	1,282
		Total Significant PL Adjustments	($13,710)	($16,955)
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$164,728	$159,964

The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issue **- The executive does not explain why the cost personal services increases by over 30 percent in both fiscal 1998 and 1999. The percentages increases are much greater than the statewide average increases in personal services costs.**

4) Computer Replace/A&E - Fiscal 1996 actual equipment expenditures were $38,757. The Executive Budget provides for $20,520 each year for personal computers to improve services and increase productivity and provide the minimum technology necessary to execute current and future system applications. There is a net reduction of $18,237 state special revenue funds each year of the 1999 biennium.

5) Equipment Purchases - The increase of $1,700 in fiscal 1998 is for replacement of a reader printer used to produce copies of documents for state agencies and the public sector, and for various report preparation and project research.

6) Operating Adjustments - This recommendation is for state special revenue of $5,848 in fiscal 1998 and $4,303 in fiscal 1999 to pay for legal fees of printing of the Capital Construction Program book in fiscal 1999, software, and indirect costs of the data processing unit provided by the Management Support Bureau, Department of Administration. There is a decrease in overtime of $3,021 each year based on a three year average. The net increase is $2,827 in fiscal 1998 and $1,282 in fiscal 1999.

6101 06
Department of Administration
Program Proposed Budget

Procurement & Printing Division

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	10.29	0.00	0.00	10.29	0.00	0.00	10.29	10.29
Personal Services	317,091	26,727	0	343,818	29,355	0	346,446	690,264
Operating Expenses	80,598	13,116	0	93,714	11,831	0	92,429	186,143
Equipment	7,869	(309)	0	7,560	(1,309)	0	6,560	14,120
Total Costs	$405,558	$39,534	$0	$445,092	$39,877	$0	$445,435	$890,527
General Fund	405,558	39,534	0	445,092	39,877	0	445,435	890,527
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$405,558	$39,534	$0	$445,092	$39,877	$0	$445,435	$890,527

Program Description

The Procurement and Printing Division has four functions that manage specific division activities: 1) the Publications and Graphics Bureau (P&G), which provides printing, duplicating, computerized typography, layout and design, graphic and illustrative art, forms design, photo-reprographics, binding and quick copy, and photocopier pool services for state agencies; 2) the Property and Supply Bureau (P&S), which purchases, stocks, and sells office supplies, paper, janitorial supplies, and packaged computer software to state agencies and administers the sale of state and federal surplus property no longer needed by state agencies; 3) the Purchasing Bureau, which manages centralized purchasing for state agencies by investigating possible sources for products, determining alternate product possibilities, preparing specifications, enforcing the terms and conditions outlined in purchase orders, and providing technical assistance to state agencies regarding purchasing laws; and 4) the Natural Gas and Fueling function, which administers the statewide fueling network for state agencies and participating local governments and purchases natural gas for state agencies and the university system.

The Publications and Graphics, Property and Supply, and Purchasing Bureaus are mandated by state law.

Funding

The division is funded with general fund and proprietary funds. The Publications and Graphics Bureau is funded through payments for services provided to other state agencies. The Property and Supply Bureau is funded from payments for goods and services provided to local governments and other state agencies. The Purchasing Program is funded from the general fund. The Natural Gas and Fueling Program is funded through markups on the cost of fuel and natural gas purchased for resale to state institutions and university system units.

Since only the funding for the Purchasing Program is appropriated in HB 2, only the Purchasing Program budget is presented in this section. The other program budgets are presented and discussed in the "Proprietary Rate Setting and State Fund" section of the Executive Budget/LFD Budget Analysis.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6101 06 **Department of Administration** **Procurement & Printing Division** Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	26,727	29,355
02		Inflation/Deflation	(564)	(601)
03		Fixed Costs	7,027	8,074
		Total Statewide Adjustments	$33,190	$36,828
Significant Present Law Adjustments				
04	79199	Computer Replace/Purchasing	(309)	(1,309)
05	91001	Indirect Costs-Network Support	6,020	6,025
		Total Significant PL Adjustments	$5,711	$4,716
Other Base Adjustments			$633	($1,667)
		Grand Total Present Law Adjustments	$39,534	$39,877

4) The Executive Budget decreases $309 in fiscal 1998 and $1,309 in fiscal 1999 to reflect a lower replacement equipment requirement for this biennium. The Procurement and Printing Division will be replacing computers and a fax machine in the Purchasing Bureau.

5) The Executive Budget adds $6,020 in fiscal 1998 and $2,025 in fiscal 1999 to reflect the Procurement and Printing Division allocation of the network support costs.

Other Base Adjustments - Numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

6101 08
Department of Administration — **General Services Program**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Operating Expenses	249,926	45,394	0	295,320	54,726	0	304,652	599,972
Transfers	58,800	1	0	58,801	1	0	58,801	117,602
Total Costs	$308,726	$45,395	$0	$354,121	$54,727	$0	$363,453	$717,574
General Fund	249,926	45,394	0	295,320	54,726	0	304,652	599,972
State/Other Special	0	0	0	0	0	0	0	0
Capital Projects	58,800	1	0	58,801	1	0	58,801	117,602
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$308,726	$45,395	$0	$354,121	$54,727	$0	$363,453	$717,574

Program Description

The General Services Program manages repair and maintenance services for state agencies in the Capitol complex and several state-owned buildings in the Helena area. The program also provides locksmith services, painting, remodeling, and construction services. The program supervises contracts for services for state-owned buildings, including mechanical maintenance, pest control, janitorial services, elevator repair, security, maintenance, and garbage collection.

Administration of the program is mandated by 2-17-101 and 2-17-111, MCA.

LFD Comment - Only the portion of the program's operation contained in the HB 2 budget is discussed in the following section. The remainder, because it is supported with non-budgeted proprietary funds, is discussed in the "Proprietary Rate Setting and State Fund" section of the Executive Budget/LFD Budget Analysis.

Funding

Funding for the General Services Program is primarily from proprietary funds the program receives by charging rent to state agencies. Agencies pay rent on office and warehouse space in state buildings located mostly on the Capitol complex. The program also receives general fund which, although counted as a rent expense, is actually transferred as revenue into the general services proprietary account. The general fund support is to pay the costs of maintaining "common areas" such as legislative office space, the Governor's mansion, public display areas in the Historical Society Museum, and some office space in the museum building. The common areas account for about 20 percent of the Capitol complex office space. Minor amounts of Capitol land grant funds, based on appropriations in previous biennia, are also transferred to the general services proprietary account.

The General Services Program calculates that the direct costs of maintaining the common areas are approximately 6.5 percent of its total operating costs. In order to establish that level of general fund support in future biennia, the 1995 Legislature adopted the following language in HB 2:

> **The general fund appropriated for the general services program is intended for transfer into the general services proprietary account. The present law base in subsequent biennia must include general fund at 6.5% of program operating expenses.**

Executive Present Law

6101 08 Department of Administration General Services Program		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Inflation/Deflation	1	1
02	Fixed Costs	45,394	54,726
	Total Statewide Adjustments	$45,395	$54,727
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments			
	Grand Total Present Law Adjustments	$45,395	$54,727

LFD Comment **- The fixed cost portion of the HB 2 budget request, shown in the table, is counted as a rent expense, but is actually the amount of general fund money the General Services Program receives to maintain common spaces. Language adopted in HB 2 in the 1995 legislative session requires that the present law budget "include general fund at 6.5 percent of program operating expenses". The proposed present law budget is $4,630,793 in fiscal 1998 and $4,730,353 in fiscal 1999. (See the program budget in the "Proprietary Rate Setting and State Fund" section.) Based on these amounts, the present law adjustments to bring general fund support to 6.5 percent of program operating expenses would be $51,076 in fiscal 1998 and $57,547 in fiscal 1999. The actual present law adjustments the program is requesting are $45,394 for fiscal 1998 and $54,726 for fiscal 1999.**

In the last biennium, the program received $58,000 per fiscal year from the fund to pay maintenance costs on buildings in the Capitol complex. The present law adjustment table shows virtually no change in the Capitol land grant fund appropriation request. In fact, the program is requesting an increase of $250,000 each year in Capitol land grant funds to pay for major maintenance of Capitol complex buildings. The request was mistakenly included as part of the program's proprietary fund budget. (Please see the "LFD Issue" under "Capitol Complex Major Maintenance" in the "Proprietary Rate Setting and State Fund" section for a discussion of the major maintenance request.)

6101 23
Department of Administration **State Personnel Division**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	23.25	0.00	0.00	23.25	0.00	0.00	23.25	23.25
Personal Services	753,713	74,905	0	828,618	75,700	0	829,413	1,658,031
Operating Expenses	140,081	31,338	8,470	179,889	5,670	8,470	154,221	334,110
Equipment	19,358	(7,958)	0	11,400	(7,958)	0	11,400	22,800
Transfers	0	0	6,500,000	6,500,000	0	6,500,000	6,500,000	13,000,000
Total Costs	$913,152	$98,285	$6,508,470	$7,519,907	$73,412	$6,508,470	$7,495,034	$15,014,941
General Fund	913,152	98,285	2,008,470	3,019,907	73,412	2,008,470	2,995,034	6,014,941
Proprietary	0	0	0	0	0	0	0	0
Expendable Trust	0	0	4,500,000	4,500,000	0	4,500,000	4,500,000	9,000,000
Total Funds	$913,152	$98,285	$6,508,470	$7,519,907	$73,412	$6,508,470	$7,495,034	$15,014,941

Program Description

The State Personnel Division provides state agencies with a comprehensive program of personnel administration including: position classification, collective bargaining and labor relations, group benefits plans, compensation plan and rules, deferred compensation, training, employee incentive awards, sick leave fund, equal employment and affirmative action, and health education. The division publishes state rules and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, affirmative action, and other personnel matters. The division also prepares, maintains, and distributes payroll for all state employees.

Functions administered by the Classification and Labor Relations Bureaus are mandated or otherwise governed by the following state statutes: 2-18-2, MCA; 2-18-102, MCA; 2-18-301 through 303, MCA; 2-18-604, MCA; 2-18-1011 through 1013, MCA; 39-29-112, MCA; 39-30-106, MCA; 39-31-101 through 409, MCA. The payroll unit is mandated and/or governed by the provisions of 2-18-401 through 412, MCA. Functions administered by the Employee Benefits Bureau are mandated or otherwise governed by the following state statutes: 2-18-808 through 814, MCA; 2-18-1101 through 1106, MCA; 19-2-101 through 206, MCA; and 33-2-712, MCA. Operation of the Professional Development Center is mandated by 1-18-102, MCA.

Funding

The program is funded with a combination of general fund and proprietary funds. Funding for the Classification and Labor Relations Bureaus is from the general fund. The Employee Benefits Bureau is funded from the investment earnings of the state employees benefits fund. The Employee Benefits Bureau also receives a minor general fund appropriation for administration of the employee incentive program and for sick leave administration. The Professional Development Center is funded by proprietary fees state agencies pay for training services. The State Payroll Unit is funded by proprietary fees state agencies pay for payroll processing services. The HB 2 budget for the program includes all functions except the Professional Development Center and the State Payroll Unit. Because they are funded with proprietary funds, they are discussed in the "Proprietary Rate Setting and State Fund" section of the Executive Budget/LFD Budget Analysis.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Computer Replace/State Personnel - The Executive Budget decreases $7,958 each year of the biennium to reflect a reduction in equipment requirements. The Division will replace five of their computers as part of a four year program of upgrading these units to support enhanced operating software.

6101 23
Department of Administration — State Personnel Division — Present Law Adjustments/Issues

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	74,905	75,700
02		Inflation/Deflation	(1,481)	(1,834)
03		Fixed Costs	9,194	11,396
		Total Statewide Adjustments	$82,618	$85,262
Significant Present Law Adjustments				
04	79199	Computer Replace/State Personn	(7,958)	(7,958)
05	91001	Indirect Costs Network Support	15,323	15,335
06	91002	Compensation Consulting	1,702	(22,698)
07	91003	Software Licenses	4,100	900
		Total Significant PL Adjustments	$13,167	($14,421)
Other Base Adjustments			$2,500	$2,571
		Grand Total Present Law Adjustments	$98,285	$73,412

5) Indirect Cost Network Support - The Executive Budget adds $15,323 in fiscal 1998 and $15,335 in fiscal 1999 to reflect the State Personnel Division's allocation of the network support costs.

6) Compensation Consulting - The Executive Budget adds $1,702 in fiscal 1998 and decreases $22,698 in fiscal 1999 in consulting services. The division will contract for services to conduct the biennial salary survey of employers to obtain wage and salary data and to provide consultant assistance to review design issues of the classification and pay plan.

7) Software Licenses - The Executive Budget adds $4,100 in fiscal 1998 and $900 in fiscal 1999 for purchase of 27 operating system, 14 WordPerfect, and nine Lotus licenses.

Other Base Adjustments - Several small increases and decreases from the base comprise the net other base adjustments.

6101 23
Department of Administration — State Personnel Division
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 State Employment Applications		8,470		8,470		8,470		8,470
02 Personal Services Contingency		2,000,000	4,500,000	6,500,000		2,000,000	4,500,000	6,500,000
Total For New Proposals		$2,008,470	$4,500,000	$6,508,470		$2,008,470	$4,500,000	$6,508,470

Executive New Proposals

1) State Employment Applications - The Executive Budget adds $8,470 each year to purchase 70,000 state application forms to be distributed to the public at no charge by local job service offices. The Montana Job Service can no longer pay for this expense. The funding is from the general fund.

2) Personal Services Contingency - Consistent with the last two biennia, a personal services contingency account in the Department of Administration is recommended to be available for distribution to both Executive Branch and Judicial Branch agencies that do not experience staff turnovers in an amount necessary to provide full funding for personal services. The amounts recommended are $2 million general fund and $4.5 million other funds each year of the 1999 biennium. The contingency account increases over the current biennium because the Executive Budget also includes a consistent across-the-board 3 percent vacancy savings for all programs in state government, including direct care services in programs operated by the Departments of Public Health and Human Services and Corrections, and the School for the Deaf and Blind, and in the Judicial Branch, in order to fund the pay plan. Only agencies with fewer that 20.00 FTE, Montana University System instructional faculty, and the Legislative Branch, pursuant to 17-7-122(2), MCA, do not have the 3 percent vacancy savings applied. The specific HB 2 language recommended to govern distribution of the account is presented below.

LFD Issue **- The 1999 biennium pay plan will cost $34.95 million. The executive proposes to fund the pay plan through vacancy savings of 3 percent. In addition, new proposals that add FTE request only three-quarter funding for the first year. The executive applies the 3 percent rate to almost all positions, including positions that must be staffed 24 hours per day, seven days per week. The size of the contingency indicates that the pay plan may be significantly underfunded, as vacancy savings of 3 percent and the delayed hires would generate approximately $30.1 million over the biennium. The $6.5 million per year the executive requests is 43 percent of the vacancy savings imposed and 37 percent of the projected $34.95 million cost of the pay plan and indicates that the executive actually expects overall vacancy savings of about 2.2 percent. For a further discussion of the proposed executive pay plan, see the "Overview" volume of the Executive Budget/LFD Budget Analysis.**

Executive Language Recommendation

The following language is recommended for inclusion in HB 2:

> "Item X contains biennial appropriations that the department and the office of budget and program planning may combine and spend in either year to allocate to agencies (except for Montana university system instructional faculty and the legislative branch), subject to the process described below, for personal services if the agencies did not experience normal turnover in an amount necessary to provide full funding for personal services. The amounts may be adjusted among fund types, excluding the general fund, which may not be adjusted.
>
> It is not the intention of the executive or the legislature to force vacancies among judges or in direct care positions. It is recognized that the workload of the judges is ongoing. It is recognized that the nature of direct care mandates 24 hour staff coverage, seven days a week in order to provide statutorily-mandated services. It is further recognized that vacancies in direct care programs do not translate into empty positions, but, rather, result in an increase in overtime wages until the position is filled. Accordingly, the amounts set aside for personal services contingencies for the judiciary and for direct care programs in executive branch agencies shall be partially allocated to the affected agencies by the office of budget and program planning for fiscal 1998 and fiscal 1999 first-day processing. Likewise, the salaries of elected officials will be restored to the full amount cited on the already-approved schedule for fiscal 1998 and fiscal 1999 first-day processing.
>
> Agencies making any other requests for an allocation of these contingency funds shall document the request in the manner prescribed by the budget director to show that personal services expenditures will exceed program appropriations for personal services and the reasons for the deficit. The office of budget and program planning shall provide an annual report to the legislative finance committee showing the allocations of these personal services contingency funds."

6101 37 Department of Administration Program Proposed Budget				State Tax Appeal Board				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	10.50	0.00	0.00	10.50	0.00	0.00	10.50	10.50
Personal Services	223,797	87,956	0	311,753	88,407	0	312,204	623,957
Operating Expenses	53,607	10,188	0	63,795	10,256	0	63,863	127,658
Equipment	24,355	(24,355)	0	0	(24,355)	0	0	0
Local Assistance	1,885	0	0	1,885	0	0	1,885	3,770
Total Costs	$303,644	$73,789	$0	$377,433	$74,308	$0	$377,952	$755,385
General Fund	303,644	73,789	0	377,433	74,308	0	377,952	755,385
Total Funds	$303,644	$73,789	$0	$377,433	$74,308	$0	$377,952	$755,385

Program Description

The State Tax Appeal Board (STAB) provides a tax appeal system for all actions of the Department of Revenue. The board travels throughout the state to hear appeals from decisions of the 56 county tax appeal boards (CTAB) and it has original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally-assessed property taxes, and new industry. The STAB pays a per-meeting honorarium, including mileage reimbursement and meals, to the 168 CTAB members, and pays clerical expenses for each board.

The State Tax Appeals and County Tax Appeals Boards are mandated by Article VIII, Section 7 of the Montana Constitution, and by 15-2-101, MCA.

Funding

All program funding is provided by the general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6101 37 Department of Administration State Tax Appeal Board			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	87,956	88,407
02		Inflation/Deflation	(419)	(393)
03		Fixed Costs	4,276	5,115
		Total Statewide Adjustments	$91,813	$93,129
Significant Present Law Adjustments				
04	91001	Indirect Costs Network Support	3,831	3,834
05	91002	Legal Services	2,119	2,119
06	91011	Replacement Equipment	(24,355)	(24,355)
		Total Significant PL Adjustments	($18,405)	($18,402)
Other Base Adjustments			$381	($419)
		Grand Total Present Law Adjustments	$73,789	$74,308

LFD Issue **- The executive gives no explanation for the personal services increases of 39 percent in fiscal 1998 and 40 percent in fiscal 1999. The executive also gives no explanation for the fixed costs increases. The rates of growth in both personal services and fixed costs for**

this program are well above the statewide average rates.

4) Indirect Costs Network Support - The increase of $3,831 in fiscal 1998 and $3,834 in fiscal 1999 represents the program allocation of the costs of the department network support unit. The network support unit is an internal service cost pool that provides computer network support for all programs in the department with the exception of the Information Service Division.

5) Legal Services - The increase of $2,119 each year is for the services of private legal counsel to provide legal advice, rulings, and court appearances. The increase matches the actual amount spent for legal services in fiscal 1996. The fiscal 1996 expenditures were charged to carry forward appropriations that are excluded from the base.

6) Replacement Equipment - Replacement equipment for each year is a net reduction of $24,355 from the base and includes no request for replacement.

Other Base Adjustments - Several small increases and decreases from the base comprise the net other base adjustments.

6102 00

Agency Proposed Budget				Appellate Defender Commission				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	2.00	0.00	0.75	2.75	0.00	1.00	3.00	2.75
Personal Services	71,596	4,900	30,223	106,719	4,900	40,298	116,794	223,513
Operating Expenses	29,582	10,400	2,799	42,781	10,436	3,531	43,549	86,330
Equipment	0	0	4,550	4,550	0	0	0	4,550
Total Costs	$101,178	$15,300	$37,572	$154,050	$15,336	$43,829	$160,343	$314,393
General Fund	101,178	15,300	37,572	154,050	15,336	43,829	160,343	314,393
Total Funds	$101,178	$15,300	$37,572	$154,050	$15,336	$43,829	$160,343	$314,393

Mission Statement

To permit state courts to fulfill, in a cost-effective manner, federal and state constitutional and statutory obligations to appoint counsel to effectively represent indigent persons who wish to pursue their rights to challenge criminal convictions, by means of appeals to the supreme court or by other post-conviction challenges; to assist defense counsel in appeals on request; to aid the Appellate Defender Commission in promulgating standards for the appointment of trial and appellate counsel in Montana; and to develop and maintain a roster of defense attorneys eligible for appointment in Montana.

Agency Description

The Office of the Appellate Defender is an agency administratively attached to the Department of Administration. Prior to creation of the agency by the 1995 legislature, the Appellate Defender Program was administratively attached to the Department of Administration and funded by a statutory appropriation. The appellate defender is hired by, and serves at the pleasure of, the Appellate Defender Commission. The appellate defender provides legal counsel for indigent persons who have been convicted, and who: a) appeal their district court conviction; and/or b) petition for postconviction relief from proceedings in district court. The appellate defender also aids the commission in compiling and keeping current a statewide roster of attorneys eligible for appointment by an appropriate court as trial and appellate defense counsel for the indigent.

The appellate defender exists under state mandates established by 46-8-210 through 213, MCA.

6102 00

Appellate Defender Commission				Biennium Budget Comparison				
Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	2.00	0.75	2.75	2.00	1.00	3.00	2.00	2.75
Personal Services	76,496	30,223	106,719	76,496	40,298	116,794	146,236	223,513
Operating Expenses	39,982	2,799	42,781	40,018	3,531	43,549	59,071	86,330
Equipment	0	4,550	4,550	0	0	0	0	4,550
Total Costs	$116,478	$37,572	$154,050	$116,514	$43,829	$160,343	$205,307	$314,393
General Fund	116,478	37,572	154,050	116,514	43,829	160,343	205,307	314,393
Total Funds	$116,478	$37,572	$154,050	$116,514	$43,829	$160,343	$205,307	$314,393

Funding

The program is entirely funded by the general fund through district court fees that are 7 percent of the 2 percent tax on automobiles and light trucks (61-3-509, MCA). County treasurers forward the fees to the state treasurer, who credits the amounts to the state general fund for district court expenses as provided in 3-5-901, MCA. The appellate defender program is one of several district court functions funded by district court fees.

Executive Present Law

6102 01 **Appellate Defender Commission** **Appellate Defender** Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	4,900	4,900
02		Inflation/Deflation	327	263
03		Fixed Costs	1,604	1,704
		Total Statewide Adjustments	$6,831	$6,867
Significant Present Law Adjustments				
04	91001	Expert Witnesses	7,562	7,562
05	91002	Cost Allocation Network Support	1,095	1,095
06	91003	Rent/Non-State Building	0	0
		Total Significant PL Adjustments	$8,657	$8,657
Other Base Adjustments			($188)	($188)
		Grand Total Present Law Adjustments	$15,300	$15,336

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Contracted Services - Additional contracted services authority of $7,562 is requested each year for the costs of expert witnesses such as psychiatrists, attorneys, and private investigators. The office will be handling a death penalty case during the 1999 biennium that will require more use of expert witnesses. Expenditures in the fiscal 1996 base year were $2,438 which was below the $4,681 amount incurred in fiscal 1995.

5) Cost Allocation-Network Support - The appellate defender share of the fixed costs of the Department of Administration internal Network Support Unit is $1,095 per year. The cost is allocated based upon the number of personal computers in each program.

6102 01 **Appellate Defender Commission** Executive Budget New Proposals		**Appellate Defender**						
	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Attorney	0.75	37,572		37,572	1.00	43,829		43,829
Total For New Proposals	0.75	$37,572		$37,572	1.00	$43,829		$43,829

Executive New Proposals

1) New Attorney - The executive recommends the addition of a 0.75 FTE staff attorney in fiscal 1998, associated operating expenses, furniture and equipment, and a 1.00 FTE staff attorney in fiscal 1999 and associated operating expenses. The office is presently staffed by one attorney and one paralegal. The majority of cases assigned to the office are done so because a conflict developed between the defendant and prior counsel. As a matter of law, courts must appoint attorneys in these cases.

The appellate defender handles appeals and post-conviction cases at less cost than if the courts had to appoint and pay private attorneys. An additional full-time attorney will alleviate the current backlog of cases and will assume responsibility for additional cases. In each calendar year since 1992, when the office began practice, the workload has exceeded national recommended standards for maximum caseloads in appeals.

LFD Comment **- The workload of the appellate defender's office will exceed national recommended standards for caseloads in appeals by more than 65 percent in 1997. A large part of the workload is the result of an appeal in a death penalty case, so this year's workload may be abnormally high. Though the appellate defender has indicated that "it would be difficult to attempt to quantify the costs associated in handling appeals by private attorneys, because there are several different systems in use around Montana", the legislature may wish to obtain more information about the cost-effectiveness of appointing private attorneys to handle case appeals.**

6104 00

Agency Proposed Budget

Public Employees Retirement Board

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	19.50	0.00	0.00	19.50	0.00	0.00	19.50	19.50
Personal Services	600,392	38,247	0	638,639	40,591	0	640,983	1,279,622
Operating Expenses	632,525	78,284	0	710,809	7,997	0	640,522	1,351,331
Equipment	20,303	6,840	12,500	39,643	2,657	12,500	35,460	75,103
Total Costs	$1,253,220	$123,371	$12,500	$1,389,091	$51,245	$12,500	$1,316,965	$2,706,056
Non-Expendable Trust	1,253,220	123,371	12,500	1,389,091	51,245	12,500	1,316,965	2,706,056
Total Funds	$1,253,220	$123,371	$12,500	$1,389,091	$51,245	$12,500	$1,316,965	$2,706,056

Mission Statement

To efficiently and equitably administer eight state and local retirement systems in a manner which allows each system to operate on a financially sound basis and provide the broadest retirement coverage to public employee members and their beneficiaries in the event of death, disability or retirement of the members as prescribed by the legislature.

Agency Description

The Public Employees' Retirement Division (PERD) is an agency administratively attached to the Department of Administration. The agency administers most of the state employee retirement systems including those for public employees, game wardens, highway patrol, judges, sheriffs, municipal police officers, firefighters unified retirement, and volunteer firefighters retirement. It also administers the Federal-State Social Security Agreement as defined in Title II, Section 218, of the Social Security Act and Title 19, Chapter 1, MCA. Administration and operation of the retirement systems are governed by rules adopted by the Public Employees' Retirement Board (2-15-1009, MCA). Board members, appointed by the Governor for five-year terms, consist of three public employees active in the retirement system, one retired employee, and two members-at-large.

6104 00

Public Employees Retirement Board — **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	19.50	0.00	19.50	19.50	0.00	19.50	19.50	19.50
Personal Services	638,639	0	638,639	640,983	0	640,983	1,228,492	1,279,622
Operating Expenses	710,809	0	710,809	640,522	0	640,522	1,218,694	1,351,331
Equipment	27,143	12,500	39,643	22,960	12,500	35,460	22,203	75,103
Total Costs	$1,376,591	$12,500	$1,389,091	$1,304,465	$12,500	$1,316,965	$2,469,389	$2,706,056
Non-Expendable Trust	1,376,591	12,500	1,389,091	1,304,465	12,500	1,316,965	2,469,389	2,706,056
Total Funds	$1,376,591	$12,500	$1,389,091	$1,304,465	$12,500	$1,316,965	$2,469,389	$2,706,056

Funding

Funding for administrative costs of the Public Employees' Retirement Division comes proportionately from the investment earnings of each of the eight retirement systems administered by the division.

Recent constitutional changes require that pension funds no longer be subject to legislative appropriation. Legislation to be introduced (LC 63) recognizes these constitutional changes and mandates that the administrative expenses of the state retirement systems not exceed 1.5 percent of retirement benefits paid. If this bill passes, the legislature will no longer appropriate these funds.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6104 35

Public Employees Retirement Board Public Employees Retirement Divison Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	36,800	39,106
02		Inflation/Deflation	(37,317)	(52,295)
03		Fixed Costs	25,332	(31,553)
		Total Statewide Adjustments	$24,815	($44,742)
Significant Present Law Adjustments				
04	79199	Equipment Replacement	6,989	2,806
05	91001	Rent - Pers Building	49,118	49,118
06	91002	Legal Fees And Hearings	44,447	45,346
07	91003	Actuary & Physician Contracts	27,138	28,570
08	91004	Board Member Expenses	17,627	17,627
09	91005	Communication & Travel	17,120	15,233
10	91006	File System Conversion	(70,958)	(65,314)
		Total Significant PL Adjustments	$91,481	$93,386
Other Base Adjustments			$7,075	$2,601
		Grand Total Present Law Adjustments	$123,371	$51,245

4) Equipment Replacement - Replacement equipment for fiscal year 1998 is a net increase of $6,989. The replacement cost for the personal computers is $15,960 and the cost for a replacement HP 5SI model printer is $4,183. The replacement of office furniture is recommended in the amount of $7,000. During calendar year 1994 the PERB was required to purchase 16 IBM/Valuepoint machines within a four-month period to be able to run the new version of ZIP! Office. To prevent this type of situation from arising again, an ongoing computer replacement plan is recommended that would replace approximately one-third of personal computers each year (seven per year). Recommended fiscal year 1999 replacement equipment is a net increase of $2,806 made up of $15,960 in personal computers and $7,000 in office furniture.

5) Rent - PERS Building - The rent of the Public Employees' Retirement System (PERS) building increases by $49,118 each year above the amount in the base year. The rental value is calculated based upon 7,200 square feet at $7.50 per square foot. Although PERS owns the building, the estimated fair market rental value is to be charged proportionately to all retirement systems administered by the division. The total rental value is the same amount appropriated in the current biennium; however, PERS was not charged rent in the base year due to a decision made regarding the proper recording of rental revenue in relation to the treatment of the building as an operating asset. In the 1999 biennium, the intent is to charge the full rental value to PERS.

LFD Comment **- The Public Employees' Retirement System (PERS) bought the building used by Public Employee Retirement Division (PERD) staff as an investment, with the intention of charging fair market rent proportionately to all retirement systems administered by PERD. In fiscal 1996, the Public Employees'**

Retirement Board decided to categorize the building as an operating asset rather than as an investment. Because it was unclear whether applicable accounting rules allowed PERS to receive income from operating assets, the board decided that PERD should not charge rent to retirement systems in fiscal 1996. It has since been made clear that PERS may receive income from operating assets, so all retirement systems administered by PERD will pay rent in the 1999 biennium.

6) Legal Fees and Hearings - Legal fees primarily increase due to the anticipated full use of attorneys in Agency Legal Services in the Department of Justice for 500 hours of legal work each year. Increases in the number of contested case hearings also are projected at the rate of $1,000 per hearing. The base year caseload for contested cases and the corresponding legal services was below average. Other modest annual increases occur based upon the standard cost allocation of legal services costs from the Legal Services Unit in the Department of Administration.

LFD Issue **- The fiscal 1996 budget proposed by the Public Employees' Retirement Division and passed by the legislature included $86,698 for legal fees and court costs, including $15,000 for contested hearings as well as costs for 400 hours of legal services to have been provided by Department of Justice attorneys. Actual spending on legal fees and court costs in fiscal 1996 was $56,097, an amount $30,601 less than appropriated and not entirely explained by a lower than average caseload for contested cases in the base year. The budget proposed by PERD for the 1999 biennium includes $31,000 per fiscal year to pay for 500 hours of legal services to be provided by Department of Justice attorneys, an increase of 25 percent over the 400 hours of legal services PERD expected to require, but in fact did not require in fiscal 1996. Rather than grant the full $31,000 outright, the legislature may wish to grant a restricted appropriation to allow PERD to pay for legal services as the need arises.**

7) Actuary and Physician Contracts - The actuarial services contract is estimated to increase by six percent above fiscal 1996. The total increase for actuarial services and financial planning seminar contracts is $16,535 each year. The physician consultant contracts for disabled members increases by $10,603 in fiscal 1998 and $12,035 in fiscal 1999. The increase is due to increased scrutiny of disabilities required by both federal law and board policy.

8) Board Member Expenses - Increased retirement board member per diem of $9,550 each year is required due to the geographic makeup of the present board membership. Three current members are from the far eastern portion of the state. The base year does not reflect all per diem payments as approximately $4,000 was charged to an appropriation that is not included in the fiscal 1996 actual expenditures. Lodging and travel expenses increase by approximately $8,077 each year; the increased amount includes board members and amounts for retiree physical exams and medical evaluations grouped with board members under the "non-employee" category.

9) Communication and Travel - The net increases of $17,120 in fiscal 1998 and $15,233 in fiscal 1999 that are attributable to staff travel and conferences generally correspond with the appropriated amounts for fiscal 1997. Travel was reduced in the first half of fiscal 1996 but returned to normal during the second half. Financial planning seminars were initiated during the final quarter of fiscal 1996 and the associated travel expenses are continued on a full-year basis in the 1999 biennium. Postage and mailing increases are included in the net increases in the amounts of $4,979 in fiscal 1998 and $10,429 in fiscal 1999, reflecting an estimated 10 percent annual increase in the number of pieces of mail. This is based upon an increasing number of retirees, increased communication with active members, and continuation of an effort implemented in fiscal 1997 to send an informational mailer to each retiree whenever a change in benefit occurs.

10) File System Conversion - The fiscal 1996 base year includes expenditures for the conversion of the file system for the 40,000 members and a major enhancement to the active system. Decreases in the 1999 biennium include reductions of $8,103 in fiscal 1998 and $8,065 in fiscal 1999 for overtime; $25,556 each year for office supplies and minor equipment; $28,891

in fiscal 1998 and $23,285 in fiscal 1999 in computer processing; and $8,408 each year for systems development.

Other Base Adjustments - Numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

6104 35

Public Employees Retirement Board — **Public Employees Retirement Division**

Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Asset/Liability Study			12,500	12,500			12,500	12,500
Total For New Proposals			$12,500	$12,500			$12,500	$12,500

Executive New Proposals

1) Asset/Liability Study - The Public Employees' Retirement Board, together with the Board of Investments and the Teachers' Retirement Board, must have the ability to analyze assets and liabilities of the retirement systems and the relative risks and returns expected from various asset allocation strategies. Such information can be obtained either through consulting services for an asset/liability modeling study or through the purchase of software together with minimal assistance from actuaries. The PERB determined that purchasing software to accomplish its own modeling studies will be the most cost-effective expenditure of trust fund assets. The asset/liability model will project funding status and costs for each system for the next ten years under a variety of economic, investment, and population scenarios. These results will help the boards to determine prudent investment policies for maximizing investment yields for each fund in accordance with the constitutional obligations. Once developed, the models would be updated in-house with each biennial actuarial valuation and used on an ongoing basis without the need for costly external consultants. The purchase of necessary software programs and actuarial services to establish these models for the eight trust funds administered by the PERB is requested as a $25,000 biennial appropriation divided equally between fiscal 1998 and fiscal 1999.

LFD Issue **- Inasmuch as the software will be purchased in fiscal 1998, the PERB appropriation might more properly be made as a $25,000 appropriation in fiscal 1998 only.**

Executive Language Recommendation

The appropriation for the asset/liability study is a one-time-only biennial appropriation.

6105 00 Agency Proposed Budget				Teachers Retirement Board				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	11.00	0.00	0.75	11.75	0.00	1.00	12.00	11.75
Personal Services	332,708	26,578	23,675	382,961	27,084	31,566	391,358	774,319
Operating Expenses	270,112	63,488	15,477	349,077	23,627	3,636	297,375	646,452
Equipment	14,896	294	185,780	200,970	(2,756)	17,000	29,140	230,110
Debt Service	61,105	0	0	61,105	0	0	61,105	122,210
Total Costs	$678,821	$90,360	$224,932	$994,113	$47,955	$52,202	$778,978	$1,773,091
Non-Expendable Trust	678,821	90,360	224,932	994,113	47,955	52,202	778,978	1,773,091
Total Funds	$678,821	$90,360	$224,932	$994,113	$47,955	$52,202	$778,978	$1,773,091

Mission Statement

To maintain a financially sound system that will provide the broadest and fairest possible range of disability, death and retirement benefits to teachers and other eligible members of the State of Montana as prescribed by state statutes.

Agency Description

The Teachers' Retirement Board, which consists of the Superintendent of Public Instruction and five members appointed by the Governor, is responsible for the administration of the Teachers' Retirement System (TRS). To assist in fulfilling its duties, the board employs a full-time staff. The TRS administers retirement, disability, and survivor benefits for all Montana teachers and their beneficiaries.

6105 00 Teachers Retirement Board					Biennium Budget Comparison			
Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	11.00	0.75	11.75	11.00	1.00	12.00	11.00	11.75
Personal Services	359,286	23,675	382,961	359,792	31,566	391,358	675,763	774,319
Operating Expenses	333,600	15,477	349,077	293,739	3,636	297,375	597,157	646,452
Equipment	15,190	185,780	200,970	12,140	17,000	29,140	19,976	230,110
Debt Service	61,105	0	61,105	61,105	0	61,105	122,579	122,210
Total Costs	$769,181	$224,932	$994,113	$726,776	$52,202	$778,978	$1,415,475	$1,773,091
Non-Expendable Trust	769,181	224,932	994,113	726,776	52,202	778,978	1,415,475	1,773,091
Total Funds	$769,181	$224,932	$994,113	$726,776	$52,202	$778,978	$1,415,475	$1,773,091

Funding

Funding for the division is from investment earnings of the Teachers' Retirement System.

Recent constitutional changes require that pension funds no longer be subject to legislative appropriation. Legislation to be introduced (LC 63) recognizes these constitutional changes and mandates that the administrative expenses of the state retirement systems not exceed 1.5 percent of retirement benefits paid. If this bill passes, the legislature would no longer directly appropriate funds for this purpose.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6105 01 Teachers Retirement Board — Teachers Retirement Program			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	25,228	25,734
02		Inflation/Deflation	(1,954)	(2,670)
03		Fixed Costs	43,083	10,436
		Total Statewide Adjustments	$66,357	$33,500
Significant Present Law Adjustments				
04	79199	Computer Replacement	8,364	5,314
05	91001	Building Rent	0	0
06	91002	Per Diem	1,350	1,350
07	91003	Actuary & Legal Services	6,435	6,947
08	91004	Postage & Mailing	8,389	8,389
09	91005	Office Furniture Replacement	(8,070)	(8,070)
		Total Significant PL Adjustments	$16,468	$13,930
Other Base Adjustments			$7,535	$525
		Grand Total Present Law Adjustments	$90,360	$47,955

4) Computer Replacement - Replacement equipment for fiscal year 1998 is a net increase of $8,364. The replacement cost for personal computers is $10,190. The recommended fiscal year 1999 replacement equipment is a net increase of $5,314 made up of $7,140 in personal computers.

6) Per Diem - The per diem payments for the Teachers' Retirement Board members increase by $1,350 each year above the fiscal 1996 base. The base excludes $1,000 paid during fiscal 1996 but charged to a non-base carry forward appropriation. The five board members will receive a total of $2,500 in fiscal 1998 and $2,500 in fiscal 1999 for 10 meeting days. Each year two board members attend the annual national convention and the convention days add an additional $600 per year.

7) Actuary and Legal Services - The net increase of $6,435 in fiscal 1998 for consulting and legal fees is composed of increases of $2,618 for consulting actuary services and $3,817 for allocated legal fees from the Department of Administration Legal Unit and contracted hearings officers acquired through the Department of Justice. The net increase of $6,947 in fiscal 1999 includes increases of $2,618 for consulting actuary services and $4,329 for legal fees and the cost of hearings officers.

8) Postage and Mailing - The increase of $8,389 each year above the base year includes the 3 percent central mail and distribution inflation factor. Changes in mailing requirements that limit the number of pages that may be mailed in a first-class envelope will force the use of more larger envelopes in the 1999 biennium. Additionally, members who receive benefits by electronic fund transfer will begin to receive mailed advisories when the benefit amount changes

9) Office Furniture Replacement - Replacement office furniture is a net decrease of $8,070 each year below the fiscal 1996 base. The recommended replacement cost is $5,000 each year.

Other Base Adjustments - Numerous small increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

6105 01
TeachersÆ Retirement Board
Executive Budget New Proposals

		Teachers Retirement Program							
		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Programmer/Analyst	0.75		26,432	26,432	1.00		32,202	32,202
02	Imaging			191,000	191,000			12,500	12,500
03	Asset/Liability Software			7,500	7,500			7,500	7,500
04	Programmer/Analyst Pc								
	Total For New Proposals	0.75		$224,932	$224,932	1.00		$52,202	$52,202

Executive New Proposals

1) Programmer/Analyst - The recommended increase of 0.75 FTE and $26,432 in fiscal 1998 is for a computer programmer/systems analyst position, monthly network device charges, and a personal computer. The increase of 1.00 FTE and $32,202 in fiscal 1999 continues the FTE and monthly network device charges for the full year. The programmer/analyst FTE will develop, implement, and effectively use the Internet and other electronic avenues to communicate and provide retirement estimates, account information, and general system information to over 17,500 active members and 8,500 benefit recipients.

2) Imaging - The recommended increase of $191,000 in fiscal 1998 will address the agency needs for improved customer service, document handling, and automated forms input with new imaging equipment that will provide optical character recognition, computer output to laser disc, and document workflow management. The imaging project includes the purchase of a scanner, a workstation with monitor, additional monitors, additional storage, a cd-rom server, multiple tape drive backup, software, training and set up charges, and a maintenance fee. The recommended increase of $12,500 in fiscal 1999 will allow the procurement of additional storage capacity, additional monitors, and provide for the maintenance fee.

LFD Comment - **The Teachers' Retirement Board (TRB) keeps account records for participants in the Teachers' Retirement System. TRB employees manually update records, file paper copies of participant requests and other correspondence, and send some records to Records Management for microfilming. Use of imaging technology would reduce the number of paper copies of records and the physical movement of records.**

3) Asset/Liability Software - The recommended increase is $7,500 each year to purchase software and actuarial services. The software will be a one-time expense. The Teachers' Retirement Board together with the Public Employees' Retirement Board and the Board of Investments needs the ability to better analyze assets and liabilities and the relative risks associated with asset allocation. Such information can be obtained either through consulting services for an asset/liability modeling study or through the purchase of software together with minimal assistance from actuaries. The Board of Investments has indicated that it will be purchasing the software necessary to complete the asset side of the study, leaving the purchase of software to analyze the liabilities and complete the modeling. The asset/liability model will project funding status and cost requirements for the next ten years under a variety of economic, investment, and population scenarios. The increase is recommended as a biennial appropriation.

Executive Language Recommendation

The appropriation for the asset/liability software is a one-time-only biennial appropriation.

HEALTH AND HUMAN SERVICES

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

Public Health & Human Services

--------------Committee Members-------------

House	Senate
Representative Betty Lou Kasten (Chair)	Senator Chuck Swysgood (Vice-Chair)
Representative Beverly Barnhart	Senator Jim Burnett
Representative John Cobb	Senator Mignon Waterman

--------------Fiscal Division Staff--------------

Joanne Chance
Pam Joehler

--------------OBPP Representatives--------------

Bob Andersen
Connie Welsh

6901 00

Agency Proposed Budget

Department of Public Health & Human Services

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	2,795.91	(42.80)	25.46	2,778.57	(42.80)	43.79	2,796.90	2,778.57
Personal Services	89,641,445	1,423,566	787,625	91,852,636	1,686,702	1,352,653	92,680,800	184,533,436
Operating Expenses	58,153,384	49,247,736	5,255,482	112,656,602	48,593,123	6,075,371	112,821,878	225,478,480
Equipment	1,524,406	(361,137)	57,500	1,220,769	(767,821)	0	756,585	1,977,354
Grants	36,242,543	(7,413,151)	836,908	29,666,300	(6,319,114)	841,908	30,765,337	60,431,637
Benefits and Claims	483,921,835	20,671,926	16,431,992	521,025,753	38,764,984	24,215,930	546,902,749	1,067,928,502
Transfers	221,663	(11,526)	0	210,137	(11,526)	0	210,137	420,274
Debt Service	301,888	37,159	0	339,047	2,202	0	304,090	643,137
Total Costs	$670,007,164	$63,594,573	$23,369,507	$756,971,244	$81,948,550	$32,485,862	$784,441,576	$1,541,412,820
General Fund	215,083,297	9,149,172	7,506,512	231,738,981	9,794,426	11,047,440	235,925,163	467,664,144
State/Other Special	28,305,776	20,642,239	403,866	49,351,881	20,795,578	485,447	49,586,802	98,938,683
Federal Special	426,618,091	33,803,162	15,459,129	475,880,381	51,358,546	20,952,975	498,929,611	974,809,993
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$670,007,164	$63,594,573	$23,369,507	$756,971,244	$81,948,550	$32,485,862	$784,441,576	$1,541,412,820

Mission Statement

To improve, preserve, strengthen and protect the health, well-being and self-reliance of all Montanans.

Agency Description

The Department of Public Health and Human Services (PHHS) began operations on July 1, 1995, as the result of executive reorganization approved by the 1995 legislature. It is the largest department in state government and employs nearly 3,000 people statewide. Only 23 percent of the staff are in Helena; the rest work across Montana at local and regional offices, and institutions.

PHHS is responsible for a wide spectrum of programs and projects, including: welfare reform - Families Achieving Independence in Montana (FAIM), Medicaid, mental health managed care, foster care and adoption, nursing home licensing, long-term care, aging services, alcohol and drug abuse programs, vocational rehabilitation, disability services, child support enforcement activities, and public health functions (such as communicable disease control and preservation of public health through chronic disease prevention).

The department also is responsible for all state hospitals and institutions except prisons. PHHS facilities include: Montana State Hospital, Warm Springs; Montana Mental Health Nursing Care Facility, Lewistown; Montana Chemical Dependency Center, Butte; Eastmont Human Services Center, Glendive; Eastern Montana Veterans Home, Glendive; Montana Veterans Home, Columbia Falls; and Montana Developmental Center, Boulder.

Agency Budget Summary

The Executive Budget reflects an overall increase of 13 percent in fiscal 1998 and 17 percent in fiscal 1999 from the fiscal 1996 base year. Present law adjustments account for approximately 72 percent of the increase each year while new proposals contribute the other 28 percent.

Table 1 summarizes the present law adjustments and new proposals contained in the Executive Budget. Cost increases due to caseload changes and annualization of provider rate increases and other costs authorized by the 1995 legislature (except personal services costs) add $35.8 million in fiscal 1998 and $53.3 million in fiscal 1999. General operating cost reductions and computer development savings totaling $5.6 million in fiscal 1998 and $5.8 million in fiscal 1999 are partially offset by increased computer processing costs of $2.3 million in fiscal 1998 and $0.9 million in fiscal 1999. Additional costs related to anticipated workload increases due to federal welfare reform add $0.3 million in fiscal 1998 and $0.5 million in fiscal 1999. Miscellaneous present law adjustments add $9.9 million in fiscal 1998 and $11.3 million in fiscal 1999. They include increases for nutrition programs, family preservation services, contracted services in lieu of FTE, public health programs, physical plant enhancement at the Montana Developmental Center, and vacancy savings restoration and pay plan funding for staff at Montana State Hospital and the Montana Mental Health Nursing Care Center. Finally, the formation of the Mental Health Access Plan causes the appearance of a $19 million increase each year; in fact, the increase is to allow Montana State Hospital and Montana Mental Health Nursing Care Center to expend payments from the managed care organization.

New proposals contained in the Executive Budget include 1.5 percent provider rate increases totaling $7.2 million in fiscal 1998 and $14.6 million in fiscal 1999. New programs proposed include $30,000 annually for the Governor's Council on Families, an advisory council created during the 1997 biennium, $1.0 million annually for development of an electronic benefits transfer system, and $0.1 million in fiscal 1998 and $0.2 million in fiscal 1999 for a problem gambling treatment program. Program expansions account for a $14.9 million increase in fiscal 1998 and a $16.6 million increase in fiscal 1999. Program expansions are proposed for child care, family services, health prevention services, targeted Medicaid populations, senior citizen programs, and disability services programs. The executive is also proposing to spend $0.3 million annually for data systems integration.

Table 1
Agency Summary of Present Law Adjustments and New Proposals
Department of Public Health and Human Services
1999 Biennium

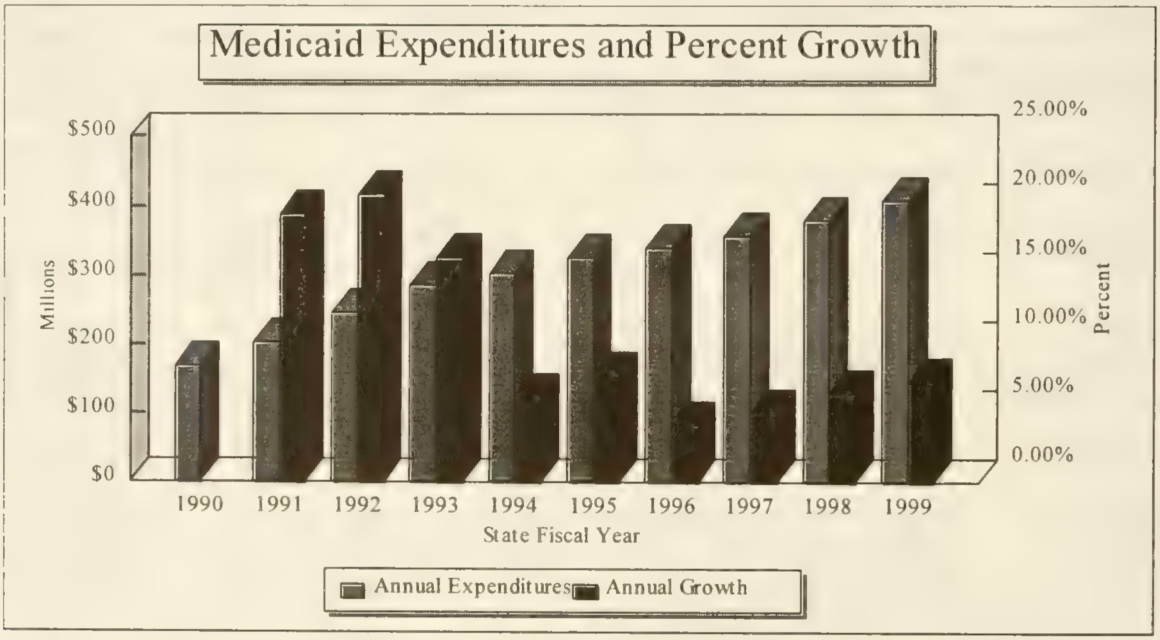
Program	Description	P/L Adjustments Fiscal 98	P/L Adjustments Fiscal 99	New Proposals Fiscal 98	New Proposals Fiscal 99
Caseload Changes and Annualization of Costs Authorized by 1995 Legislature					
Child & Family Services	Net Decrease in Welfare Costs	($4,612,147)	($3,960,212)	$0	$0
Child & Family Services	Foster Care Caseload Increase	473,584	958,579	0	0
Health Policy & Services	Medicaid Benefits Increases/Caseload	21,890,983	33,279,154	0	0
Quality Assurance	Ann. Lien & Estate Collections Contract	374,112	374,112	0	0
Quality Assurance	Annualize Licensure Activities	59,613	61,213	0	0
Senior & Long-Term Care	Caseload Adjustments	12,461,919	17,419,063	0	0
Disability Services	Annualize Fiscal 96,97 Services	4,278,418	4,278,028	0	0
Disability Services	Fiscal 97 Expansion Commitments	898,587	898,587	0	0
Total Caseload/Annualization Changes		$35,825,069	$53,308,524	$0	$0
Operating Cost Reductions					
Director's Office	Contracted Services	($29,922)	$23,848	$0	$0
Director's Office	Reorganization Reductions	(35,368)	(35,368)	0	0
Quality Assurance	Operational Cost Reductions	(129,691)	(128,191)	0	0
Opns. & Technology	Admin. and Equipment	(182,504)	(494,504)	0	0
Senior & Long-Term Care	EMVH Start Up Subsidy Elimination	(136,464)	(136,464)	0	0
Senior & Long-Term Care	Administrative Cost Net Reduction	(296,512)	(295,746)	0	0
Total Operating Cost Reduction		($810,461)	($1,066,425)	$0	$0
Computer Processing	Opns. & Technology	$2,311,469	$853,262	$0	$0
Computer Development Savings	Opns. & Technology	($4,800,000)	($4,800,000)	$0	$0
Workload Increase-Fed Wel Ref					
Disability Services	Medical Services (SSI Redeterminations)	$313,662	$504,183	$0	$0
Accounting Change for MHAP					
Addictive & Mental Disorders	Set up MSH/MMHNNC for MHAP	$19,119,918	$19,247,038	$0	$0
Misc. Present Law Adjustments	Various	$9,925,115	$11,342,436		
Statewide P/L Adjustments	Various	$1,690,161	$1,432,966		
Other P/L Adjustments	Various	$19,641	$1,126,567		
New Programs					
Opns. & Technology	Governor's Council on Families	$0	$0	$30,000	$30,000
Opns. & Technology	Electronic Benefits Transfer System	0	0	1,000,000	1,000,000
Addictive & Mental Disorders	Problem Gambling Treatment	0	0	100,000	200,000
Total New Programs		$0	$0	$1,130,000	$1,230,000
Provider Rate Increases	Various			$7,177,433	$14,608,362
Program Expansion					
Child & Family Services	Expanded Child Care Benefits/Support	$0	$0	$3,487,647	$3,681,591
Child & Family Services	Expanded Family Services	0	0	689,000	918,561
Director's Office	Staff Increases and MHCAC	0	0	158,126	173,570
Director's Office	Health Care Information Network	0	0	211,464	211,464
Health Policy & Services	Expand Public Health Programs	0	0	1,895,819	1,917,254
Health Policy & Services	Incr Mdcd Ben to Local Hlth Depts	0	0	653,500	653,500
Opns. & Technology	Staff Increases	0	0	73,635	94,848
Disability Services	Increase Federal Authority	0	0	1,000,000	1,000,000
Disability Services	Community Living/Work Slots	0	0	522,889	1,013,089
Disability Services	Emergency Needs and Staff Increases	0	0	268,377	298,819
Senior & Long-Term Care	Increase Senior Services	0	0	737,115	1,091,084
Senior & Long-Term Care	Vet Homes Enhancements	0	0	182,290	198,280
Senior & Long-Term Care	Expand Medicaid Benefits	0	0	4,986,564	5,379,904
Total Program Expansion		$0	$0	$14,866,426	$16,631,994
Program Improvement					
Health Policy & Services	Data System Integration	$0	$0	$300,000	$300,000
Other New Proposals	Various			($104,352)	($284,494)
Agency Total		$63,594,574	$81,948,551	$23,369,507	$32,485,862

Medicaid Benefits Projection

The former Department of Social and Rehabilitation Services (SRS) combined all Medicaid services within the agency in one division, the Medical Assistance Division. During the executive reorganization which created the Department of Public Health and Human Services, Medicaid was spread across four divisions within the agency in order to be more responsive to the clients served by the program. The divisions which contain Medicaid funding are the Health Policy and Services Division, the Disability Services Division, the Senior and Long-Term Care Services Division, and the Addictive and Mental Disorders Division.

Beginning in fiscal 1994, the increase in costs for Medicaid slowed dramatically, compare to increases seen in the late 1980s and early 1990s. Several reasons account for this slowing in the growth of the program. They include; a favorable economy, which tends to lower costs in welfare related programs; a national decline in the rate of increase in medical inflation; and aggressive efforts by the department to implement cost containment measures including prospective payment systems such as Diagnosis Related Groupings (DRGs), Resource Based Relative Value System (RBRVS), and managed care initiatives such as Passport and Medicaid HMO services. Additional initiatives such as the Mental Health Access Plan, are anticipated to continue containing the costs of the Medicaid program, while providing access to timely and appropriate care for clients.

The executive estimates for Medicaid expenditures and the percent annual increase from fiscal 1991 through the projected fiscal 1999 are shown in the graph below.



LFD Comment - **In addition to the executive initiatives noted above, the legislature has played a significant role in Medicaid cost control. Table 2 presents total Medicaid benefits expenditures for fiscal years 1996 to 1999 by agency division. The Executive Budget provides an overall 14 percent increase in Medicaid expenditures from the 1997 to the 1999 biennium. State funds (general fund and county funds) are projected to increase 11.3 percent while federal funds increase 15.2 percent. This is caused by the increasing federal match rate expected in the 1999 biennium. See the funding section of the Medicaid overview section in this agency narrative for a more detailed explanation of the federal match rate.**

Table 2
Department of Public Health and Human Services
Medicaid Benefits -- 1999 Biennium
Executive Budget Recommendation

Title	Fiscal 1996 Est	Fiscal 1997 Approp	Fiscal 1998 Executive	Fiscal 1999 Executive	Percent Change 1997 1999 Biennium
Health Care & Service Division					
Primary Care	$168,124,821	$200,364,337	$168,124,821	$168,124,821	
Medicaid Eligible Educ. Costs	$846,905	$303,290	$846,905	$846,905	
Indian Health Service	$10,984,643	$11,617,665	$10,984,643	$10,984,643	
Medicare Buy-In	$7,919,085	$9,968,476	$7,919,085	$7,919,085	
Medicaid Volume Increase			$14,626,048	$24,523,877	
IHS Federal Authority			$5,000,000	$5,000,000	
Mdcd Elig Educ Costs Adjust.			($67,484)	$10,459	
Medicare Buy-In Adjustment			$2,332,419	$3,744,818	
DRG Upcoding Detection			($640,000)	($640,000)	
TCM/Children @ Risk			$653,500	$653,500	
In Pt Hospital Rate Increase			$810,000	$1,674,300	
Out Pt Hospital Rate Increase			$441,381	$949,721	
Medicaid Care Prov Rate Increase			$1,476,199	$3,031,818	
Other Benefit	$0	$890,323	$0	$0	
Subtotal	$187,875,454	$223,144,091	$212,507,517	$226,823,947	6.89%
Disability Services Division					
DD Administration	$30,100	$0	$31,203	$31,354	
DD TCM Administration	($30,099)	$0	$0	$0	
DD Title XIX Benefits	$20,399,849	$23,648,853	$20,399,849	$20,399,849	
DD TCM Benefits	$932,009	$1,178,355	$932,008	$932,008	
Annualize PD Waiver	$0	$0	$95,828	$95,828	
Annualize FY96 Benefits	$0	$0	$2,317,737	$2,317,737	
Annual FY97 Start up	$0	$0	$110,000	$110,000	
FY97 Expansion	$0	$0	$742,388	$742,389	
FY97 Provider Rate Incr	$0	$0	$288,592	$288,591	
FY97 Direct Care Salaries	$0	$0	$322,176	$322,175	
Increase Federal Authority	$0	$0	$1,000,000	$1,000,000	
Provider Rate Increase	$0	$0	$334,649	$674,318	
Comm. Living & Work Opportun	$0	$0	$15,138	$41,627	
Respite Care/Crisis Support	$0	$0	$166,820	$163,603	
Subtotal	$21,331,859	$24,827,208	$26,756,388	$27,119,479	16.72%
Senior & Long-Term Care Division					
Division Administration	$130,004	$0	$0	$0	
Nursing Homes	$96,770,833	$100,922,110	$96,756,269	$96,756,269	
Community Services	$15,826,482	incl w Primary Care	$15,826,482	$15,826,482	
Waiver	$10,474,254	$8,175,953	$10,474,323	$10,474,323	
Institutions	$12,843,470	$14,507,432	$12,843,470	$12,843,470	
NH Bed Days (Nursing Homes)	$0	$0	$5,168,807	$6,188,056	
Caseload Inc All Services	$0	$0	$4,539,438	$7,735,968	
Comm Svcs Adjustment	$0	$0	$1,365,953	$1,365,953	
PD Waiver to DD	$0	$0	($95,828)	($95,828)	
Institutions Mdcd Adjustment	$0	$0	$1,382,618	$2,104,858	
HCBS Waiver	$0	$0	$1,850,907	$1,850,907	
Provider Rate Increase	$0	$0	$596,286	$1,342,164	
Nursing Home Rebase	$0	$0	$1,528,876	$3,111,492	
Expand Community Based Waiver	$0	$0	$2,135,657	$2,528,997	
HCBS Waiver Lien	$0	$0	$1,000,000	$1,000,000	
Subtotal	$136,045,043	$123,605,495	$155,373,258	$163,033,111	22.63%
Addictive & Mental Disorders Division					
RTC Community Care	$7,616,291	$10,800,335	$0	$0	
TGH Match Medicaid	$6,159,652	incl w Primary Care	$0	$0	
(1)Community Mental Health	$2,939,630	$4,769,370	$0	$0	
Mental Health Managed Care	$0	$0	$20,420,992	$20,420,992	
Provider Rate Increase	$0	$0	$844,815	$1,713,286	
Subtotal	$16,715,573	$15,569,705	$21,265,807	$22,134,278	34.43%
Total Medicaid Base Adj.	$361,967,929	$387,146,499	$365,560,050	$365,560,201	
Total Medicaid Present Law Adj.			$38,128,693	$54,454,881	
Total Medicaid New Proposal Adj.			$12,214,228	$19,095,733	
Total Executive Budget	$361,967,929	$387,146,499	$415,902,970	$439,110,815	[illegible]
State Funds	$102,175,379	$104,959,715	$113,866,951	$116,743,374	[illegible]
Federal Funds	$259,792,550	$282,186,784	$302,036,020	$322,367,441	15.21%
Total Funding	$361,967,929	$387,146,499	$415,902,970	$439,110,815	14.14%

(1)FY 96 actual included general fund and medicaid FY 97 appropriation includes only medicaid

6901 00
Department of Public Health & Human Services **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	2,753.11	25.46	2,778.57	2,753.11	43.79	2,796.90	2,795.91	2,778.57
Personal Services	91,065,011	787,625	91,852,636	91,328,147	1,352,653	92,680,800	181,809,578	184,533,436
Operating Expenses	107,401,120	5,255,482	112,656,602	106,746,507	6,075,371	112,821,878	113,756,782	225,478,480
Equipment	1,163,269	57,500	1,220,769	756,585	0	756,585	2,513,160	1,977,354
Grants	28,829,392	836,908	29,666,300	29,923,429	841,908	30,765,337	77,997,353	60,431,637
Benefits and Claims	504,593,761	16,431,992	521,025,753	522,686,819	24,215,930	546,902,749	1,035,576,494	1,067,928,502
Transfers	210,137	0	210,137	210,137	0	210,137	3,969,112	420,274
Debt Service	339,047	0	339,047	304,090	0	304,090	312,266	643,137
Total Costs	$733,601,737	$23,369,507	$756,971,244	$751,955,714	$32,485,862	$784,441,576	$1,415,934,745	$1,541,412,820
General Fund	224,232,469	7,506,512	231,738,981	224,877,723	11,047,440	235,925,163	447,313,095	467,664,144
State/Other Special	48,948,015	403,866	49,351,881	49,101,354	485,447	49,586,802	78,536,375	98,938,683
Federal Special	460,421,253	15,459,129	475,880,381	477,976,637	20,952,975	498,929,611	890,085,275	974,809,993
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$733,601,737	$23,369,507	$756,971,244	$751,955,714	$32,485,862	$784,441,576	$1,415,934,745	$1,541,412,820

Agency Issues

Medicaid Overview

Title XIX of the Social Security Act authorizes Medicaid, a program which provides medical assistance for certain individuals and families with low incomes and resources. The Medicaid program is a jointly funded cooperative venture between the federal and state governments to assist states in the provision of adequate medical care to eligible needy persons. Medicaid is the largest program providing medical and health-related services to America's poorest people. Within broad national guidelines which the federal government provides, each state: 1) establishes its own eligibility standards; 2) determines the type, amount, duration, and scope of services; 3) sets the rate of payment for services; and 4) administers its own program.[1] The state is required by federal law to submit a written State Plan, describing the nature and scope of its Medicaid program and giving assurances that it will be administered in conformity with federal laws and regulations.[2]

Eligibility

Federal guidelines require states to provide medical services for "categorically needy" recipients (those individuals receiving federally-supported financial assistance) and allow an option for states to extend coverage to additional groups, including additional children and pregnant women and other people whose medical expenses reduce their income to the state's ceiling to qualify as "medically needy". Section 53-6-131, MCA provides the eligibility criteria used by the state to determine who receives services in Montana.

[1] "Overview of the Medicaid Program", Health Care Financing Administration, Internet Web site, last updated 7/28/96.

[2] Title 42, Subchapter C, Part 430, Code of Federal Regulations.

Examples of the eligibility criteria are listed below:

Recipients of supplemental security income benefits under Title XVI of the federal Social Security Act;

- **Recipients of aid to families with dependent children under Title IV of the federal Social Security Act;**
- **A person who would be eligible for SSI or AFDC if that person were to apply for assistance;**
- **Certain Medicare beneficiaries;**
- **Recipients of adoption assistance and foster care under Title IV-E of the federal Social Security Act.**

For a complete description, the reader is directed to Section 53-6-131, MCA.

Table 3 illustrates the recent experience of the number of eligible Medicaid recipients in Montana as a percent of the state's population and the actual number of recipients receiving services as a percent of the state's population. As shown, the percent of Montana's population eligible for Medicaid services has hovered around 15 percent during the years examined while the percentage of Montana's population actually receiving Medicaid services has risen from approximately 10.4 percent to 11.2 percent during the same time period. This implies that more eligible recipients are receiving medical services.

Table 3
Medicaid Eligibles and Recipients
as Percent of Montana Population
Fiscal Years 1993 - 1996

Fiscal Year	Montana Population	Number of Eligibles	Percent of Population	Number of Unduplicated Recipients	Percent of Population
1993	840,980	124,020	14.75%	87,108	10.36%
1994	856,190	128,440	15.00%	92,473	10.80%
1995	870,270	131,539	15.11%	96,799	11.12%
1996	880,860	131,704	14.95%	98,411	11.17%

Sources:
1. Montana Population, MT Census and Economic Information Center
2. Number of Medicaid Eligibles, Health Policy & Services Division, PHHS
3. Number of Unduplicated Recipients, Medicaid Paid Claims data, PHHS

Services

In order to receive federal matching funds, states must offer certain basic services to the categorically needy eligible population, including: in-patient and out-patient hospital services; rural health clinics; federally qualified health centers; laboratory and x-ray services; physician services; medical and surgical dental services; skilled nursing facility services for individuals aged 21 or older; home health care for persons eligible for nursing facility services; family planning services and supplies; medical treatment by an optometrist; nurse midwife services; pediatric or family nurse practitioner services; pregnancy-related services; early periodic screening, diagnosis, and treatment services for individuals up to their 21st birthday; and transportation.[3] Optional services offered in the Montana Medicaid program include: services furnished by other licensed practitioners, such as podiatry, optometrist, psychologist, and nurse practitioners; private

[3]December 6, 1996 Memo from Medicaid Services Bureau, Health Policy and Services Division, Montana Department of Public Health and Human Services.

duty nursing; dental services; physical therapy services; occupational therapy; prescribed drugs; institutes for mental disease for age 65 or older; hospice; personal care services; and other services.[4]

Table 4 below presents a simplified look at the choices legislators have when deliberating changes to the Medicaid program. The mandatory and optional eligible populations are on the horizontal axis and the mandatory and optional services are on the vertical axis. The choices available to the legislature to make changes to the Medicaid program for the various eligibility and service categories are noted in the boxes. For example, box 1 represents the categorically needy population (mandatory eligible) and mandatory services. The legislature has no choice but to continue mandatory services for the categorically needy population. (While the table was constructed with the assumption that the legislature wanted to continue participating in the federal-state Medicaid program, the federal government does not require that states participate in the program.)

Funding

Table 4
Legislative Choices Regarding Medicaid Eligibles and Services

SERVICES		ELIGIBILITY: Categorically Needy	ELIGIBILITY: Medically Needy & Others
	Mandatory	1-No legislative options	2-Legislative options limited to eligibility
	Optional	3-Legislative options limited to services	4-Legislative options include either services or eligibility

As an entitlement program, there is no limit or cap on federal outlays for the Medicaid program. The federal government matches whatever the state spends on its Medicaid program. Therefore, in Montana, a limiting factor on Medicaid services is the level of state funds allocated (and eventually expended) for that purpose. The Montana Legislature has provided guidelines in state law for the department to follow in the event of a state fund shortfall. Section 53-6-101, MCA requires the department to limit, reduce, or otherwise curtail the amount, scope, or duration of medical services if funds run short. Optional eligibles and/or optional services would be impacted under such a circumstance since mandatory services must be provided to categorically needy populations for the Medicaid program to continue receiving federal reimbursement.

The portion of the Montana Medicaid program that is paid by the federal government, known as the Federal Medical Assistance Percentage (FMAP), is determined annually by a formula that compares Montana's average per capita income with the national average. As Montana's average per capita income improves relative to the national average, the FMAP rate decreases. Conversely, as Montana's average per capita income declines relative to the national average, the FMAP rate increases. In the base year, the FMAP rate was 69.74 percent. This means that for every $100 of Medicaid medical services provided in state fiscal year 1996, the federal government paid $69.74 and the state paid $30.26. In state fiscal year 1998, the FMAP rate will be 70.17 percent and the state share will be 29.83 percent. In state fiscal year 1999, the FMAP rate is estimated

[4] Ibid.

to be 71.12 percent and the state share is estimated to be 28.88 percent. The increasing FMAP rates and decreasing state share rates imply the executive is projecting Montana's average per capita income will decrease relative to the national average in the 1999 biennium.

Throughout the budget analysis for this department, the reader should be aware that the estimated FMAP rates are those described above, unless otherwise noted.

The federal government also shares in the cost of administration of the Medicaid program. Most administrative costs are matched 50 percent; however, higher matching rates are allowed for certain functions and activities.

Medicaid Expenditures

Table 5 below shows total Medicaid expenditures and the number of recipients in Montana for the last several years and the projected expenditures contained in the Executive Budget for the 1999 biennium. As shown in the table and graphically displayed in the executive narrative, the rate of Medicaid expenditure growth has slowed in recent years. The number of recipients continues to climb but also at a slower pace.

Table 5
Medicaid Benefit Expenditures, Recipient, and Cost per Recipient
Historical and Projected
Fiscal Years 1992 - 1990

Fiscal Year	Medicaid Expenditures	Annual % Change	# of Unduplicated Recipients	Annual % Change	Cost per Recipient	Annual % Change
1992	$244,413,647		79,039		$3,092	
1993	284,082,644	16.23%	87,108	10.21%	$3,261	5.46%
1994	301,592,347	6.16%	92,473	6.16%	$3,261	0.00%
1995	325,087,310	7.79%	96,799	4.68%	$3,358	2.97%
1996	338,714,683	4.19%	98,411	1.67%	$3,442	2.49%
1997*	358,704,536	5.90%	not projected			
1998*	378,015,128	5.38%	not projected			
1999*	402,167,621	6.39%	not projected			

Source: FY92-96 Benefits--PHHS Statistical Reports (FYE)
Projected Benefits (FY97), Mike Billings 8/96 model
Projected Benefits (98 & 99), Executive Budget
Recipients--Medicaid paid claims, AFDC and Aged, Blind & Disabled

*Projected benefits do not include medicaid expenditures of $21,903,199 in fiscal 1998 and $20,958,554 in fiscal 1999 in disability services division and $15,984,643 each year of the 1999 biennium for Indian Health Services

Although Medicaid expenditures have moderated in the last couple of years, the Executive Budget includes a $102.8 million increase in the 1999 biennium over base year expenditures (excluding most developmental disabilities services and Indian Health Services pass-through payments). In the 1999 biennium, approximately 29 percent of the Medicaid expenditures are funded with state funds; therefore, about $29.8 million of the additional $102.8 million will be funded with state funds. There appears to be sufficient reason for the legislature and the executive to remain diligent in controlling the state Medicaid budget.

There are several factors that impact a state's Medicaid budget, including: the eligibility criteria, the number of recipients, the number of services provided, utilization of services, and the costs. All have a direct bearing on Medicaid expenditures. If the legislature is concerned about controlling Medicaid budgets, it needs to understand the recent behavior of the factors noted above, how related and proposed policies influence those factors, and ultimately how they impact the Medicaid budget and expenditures. If no such information is included in the legislative

deliberations, then the legislature cannot make an informed decision.

Required Medicaid Report

Section 53-6-110, MCA requires the Department of Public Health and Human Services to submit, as part of the agency budget submission, a report concerning Medicaid funding for the next biennium. The law states the report must contain, at a minimum:

- An analysis of past and present funding levels for the various categories and types of health services eligible for Medicaid reimbursement.
- Projected increased Medicaid funding needs for the next biennium. The projections must identify the effects of projected population growth and demographic patterns on at least the following elements: trends in unit costs for services, including inflation; trends in the use of services; trends in Medicaid recipient levels; and, the effects of new and projected facilities and services for which a need has been identified in the state health plan.
- The department's recommendation of funding levels for the Medicaid program.

The department did not include a report of this type with its budget submission, nor were component parts included, except for the department's recommendation (request) for funding in the 1999 biennium. The department was questioned about this report and department officials stated they were unaware of this statutory requirement.

This kind of required information, combined with the department's budget request, would give the legislature a basis to analyze the executive recommendation for Medicaid funding. Without the information, the legislature is at a disadvantage when evaluating funding requests for present law services and new proposals.

Mental Health Managed Care Issue

The 1995 legislature approved an executive branch initiative to consolidate publicly-funded mental health services administered in several state agencies into one cohesive system and have the system managed by a managed care organization with the tandem goals of improving service quality and controlling costs. (See "Mental Health Access Plan Overview" in the Addictive and Mental Disorders Division for a description of the new system.) The conversion to a mental health managed care system was estimated to occur in fiscal 1997 and the appropriations were set by the 1995 legislature. The conversion to managed care will occur in April 1997. The new mental health managed care plan is called the Mental Health Access Plan (MHAP).

Prior to reorganization, the department accounted for its Medicaid-funded physical and mental health benefits costs in one program. Subsequent to reorganization, the department accounts for its Medicaid-funded physical and mental health benefits in three programs: Health Policy & Services, Senior and Long-Term Care, and Addictive and Mental Disorders. Consequently, all fiscal 1996 expenditures for mental health that will be consolidated under MHAP are reflected in the base expenditures in these programs. In order to accommodate the mental health managed care system, the agency had to "fine-tune" its accounting for mental health services and identify those Medicaid-funded mental health expenditures in the Health Policy &

Services and Senior & Long-Term Care Divisions that belong in the Addictive and Mental Disorders Division. Essentially, the department needs to transfer funds among three programs to properly reflect where and how mental health expenditures will actually be made.

The Executive Budget fails to identify the total cost of the Mental Health Access Plan and the amounts needed for transfer into the Addictive and Mental Disorders Division to fund the plan for the 1999 biennium. Failure to identify the cost of the plan and the amount and transfer source of funds into the AMDD results in:

- **the legislature not being informed of the cost of a significant present law adjustment;**
- **misrepresentation of the cost of programs that are impacted by implementation of the MHAP; and, consequently**
- **unnecessary confusion in the appropriations process.**

The department submitted information in late November 1996, well past the deadline for budget submission, identifying the amount and the funding sources for the Mental Health Access Plan. The cost and program transfers are shown below in table 6. As can be seen in the table, the budget impact is significant for the relevant programs.

Table 6
PHHS-proposed transfers for Mental Health Access Plan
1999 Biennium

Program	Benefit	Fiscal 1998 Executive Present Law	Fiscal 1999 Executive Present Law	PHHS-proposed transfer in(out) for MHAP Fiscal 1998	Fiscal 1999	Fiscal 1998 Revised	Fiscal 1999 Revised
Health Policy & Services	Primary Care	$182,750,872	$192,648,698	($22,233,167)	($23,469,739)	$160,517,705	$169,178,959
	Med Elig Educ.	779,421	857,364			779,421	857,364
	Medicare Buy-in	10,251,504	11,663,903			10,251,504	11,663,903
	Indian Hlth Svc	15,984,643	15,984,643			15,984,643	15,984,643
	Subtotal	209,766,440	221,154,608	(22,233,167)	(23,469,739)	187,533,273	197,684,869
Senior & Long-Term Care	Nursing Homes	$101,925,076	$102,944,327			$101,925,076	$102,944,327
	Community Svcs	21,731,873	24,928,403	(552,937)	(572,455)	21,178,936	24,355,948
	Waiver	10,931,363	10,950,881			10,931,363	10,950,881
	Institutions	14,226,087	14,948,328	(2,089,221)	(2,133,513)	12,136,866	12,814,815
	Subtotal	148,814,399	153,771,939	(2,642,158)	(2,705,968)	146,172,241	151,065,971
Addictive & Mental Disorders	Mental Health						
	Capitated Pool	$20,420,990	$20,420,990	$24,875,325	$26,175,707	$45,296,315	$46,596,697
	Fixed Pool (1)	28,830,722	29,315,792			28,830,722	29,315,792
	Subtotal	$49,251,712	$49,736,782	$24,875,325	$26,175,707	$74,127,037	$75,912,489
Total		$379,001,829	$395,347,537	$0	$0	$379,001,829	$395,347,537

1 The Mental Health Managed Care Fixed Pool amount includes $943,153 in the 1999 biennium for vacancy savings recovery and $1,007,132 for pay plan funding. See LFD Issues in the Addictive & Mental Disorders Division for additional information

In order to make this budget book a useful working tool for the legislature, the LFD has included a table in the present law narrative sections for each impacted program showing the funding transfer needed and the resulting present law adjustments.

Welfare Reform

Background

The 1995 legislature enacted SB 209, a bill designed to implement the executive's proposal to change the welfare system from one of dependency to self-sufficiency. The state sought and obtained extensive waivers from federal regulations of the Aid to Families with Dependent Children (AFDC) program, Food Stamp program, and Medicaid program. With approval of most of the waivers and with the state legislation in hand, the state embarked on its "demonstration" welfare reform project called Families Achieving Independence in Montana (FAIM). FAIM seeks to reduce welfare dependency and strengthen self-sufficiency by implementing four major strategies:

- establishing a Job Supplement Program to divert as many individuals and families as possible from AFDC,

- replacing AFDC with a time-limited Pathways program,

- requiring Community Service work for adults, and

- changing the culture of the welfare office from one that emphasizes benefit issuance, to one that values the attainment of participant self-sufficiency[5]

Project implementation began in February 1996 and, with staggered implementation, will be fully implemented by February 1997.

After months of national debate on welfare reform, in late July 1996 Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the federal welfare reform bill, and the President signed it into law on August 22, 1996. The bill eliminates the open-ended federal AFDC entitlement program and creates a block grant for states to provide a time-limited cash assistance for needy families; makes far-reaching changes to child care, the food stamp program, Supplemental Security Income (SSI), and benefits for legal immigrants; and makes significant changes to the Child Support Enforcement program.[6]

---

[5] "Achieving Independence for Montanans", Waiver Request, Montana Department of Social and Rehabilitati on Services, April 1994, p. I-2.

[6] "Analysis of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Conference Agreement for HR 373 4 (PL104-193)", prepared by the National Governors Association, National Conference of State Legislatures, and the American Public Welfare Association, Revised August 30, 1996, p. 1.

Impact to Montana

While Montana has already implemented many of the features of the federal legislation via its FAIM project, there are many mandatory and optional features of the federal law that are inconsistent with the FAIM project and/or whose impact is unclear at the time of this writing. Listed below are some features of the federal law that differ from Montana's status quo:

• The federal law has a five year cash assistance time limit while FAIM has an 18 to 24 month time limit in its Pathways program and an unlimited cash assistance period in its Community Service program. As the name implies, the Community Service program requires community service (a minimum of 20 hours per week) for the recipient to continue to receive cash assistance. The department believes the 5 year time limit contained in the federal law is non-negotiable and has proposed changes to its state plan to set an overall 5 year limit in Montana. The long term fiscal and programmatic impact of this policy change is not addressed in the Executive Budget.

• Instead of an open-ended funding stream, the new federal law caps funding for the AFDC-related programs and provides each state a "Temporary Assistance to Needy Families" (TANF) block grant for these programs. Montana is projected to receive approximately $45.5 million annually through federal fiscal year 2002. While these funds are no longer matched, per se, the law does contain maintenance of effort (MOE) requirements and associated penalties for non-compliance. The TANF block grant will have to be allocated within the Montana Department of Public Health and Human Services during the budget setting process and MOE expenditures monitored closely to avoid penalties.

• Montana is expected to receive more funds in its TANF block grant than it would have under the old AFDC program (at least in the short run) because the block grant is based on federal spending on AFDC over the three year period 1993-95. Because Montana's AFDC caseload has decreased in the last couple of years it will receive a "windfall" of approximately $5 million. Caseload increases accompanying any economic recessions and/or population increases could result in future shortfalls. The new federal law allows the state to carry over unspent federal funds to future years; the old AFDC program had no such provision. The legislature, therefore, may want to be a major participant in the decision of how to allocate the TANF block grant and what to do with any "excess" federal funds at the beginning of the block grant period. The Executive Budget does not address the TANF block grant allocation, any "excess" funds, or the policy implications of carrying over any "excess" funds.

• The federal law requires the state to achieve minimum worker participation rates within specific time frames while the state of Montana has no such requirement for FAIM. Failure to achieve the participation rates results in a penalty to the state of 5 percent of its TANF grant amount the first year, and increases 2 percent each year to a maximum 21 percent reduction. Each 1 percent reduction would result in a loss estimated at $455,000. Reasonable cause exceptions and corrective action plans may be allowed. It is unclear if or how Montana will achieve the minimum worker participation rates and the impact to the program if we suffer penalties.

• The federal law consolidates the existing Title IV-A child care funding sources (AFDC/JOBS, At-risk, Transitional child care) with the Child Care Development Block Grant to form the Child Care and Development Fund. The Child Care and Development Fund includes mandatory and discretionary

funds. Mandatory funds are comprised of a base allocation and matching funds. Each state will receive an annual, fixed base allocation and may receive matching funds (expected to increase each year through FY2002) if it meets certain fiscal requirements. Discretionary funds are expected to remain fixed through FY2002 and do not require a state match. These funds will also have to be allocated within the Montana Department of Public Health and Human Services during the budget setting process. The Executive Budget does not reflect the revised funding structure of the federal child care programs, nor does it discuss the long term fiscal impacts of meeting the requirements for fully accessing future federal matching fund increases.

• The law contains extensive new requirements and/or changes for the child support enforcement function, including establishment of a centralized, state registry of all child support orders and new hire information, provision of locator services, changes in income withholding, and significant changes to computer systems to enable interstate access by other states' child support enforcement agencies. The fiscal impact of these requirements and changes is not addressed in the Executive Budget. See the detailed discussion of the federal welfare reform law's impact on the child support enforcement program in the narrative immediately following this narrative.

• The law conveys a national goal of preventing teenage pregnancy and contains a financial bonus in fiscal years 1999 through 2002 for a maximum of 5 states that show the greatest decline in out-of-wedlock births. For each of the "bonus" years, the five states showing the greatest decline will each receive an additional $20 million. This is a significant amount for Montana, yet the Executive Budget is silent on this relatively significant incentive and the proposed, revised state plan contains no specifics on how it will address this national goal.

The items mentioned above are not inclusive of all the areas of the new welfare reform law that are either inconsistent with Montana's FAIM project or are optional features of the new legislation. However, they are mentioned to serve as an example of the types of issues that the legislature will face when evaluating the Executive Budget for this department. In the areas highlighted in the above section and other areas, the Executive Budget does not reflect the impact of the recently enacted federal welfare reform law nor does it discuss the long-term implications of the law.

The Legislative Fiscal Division is concerned about this lack of information because it limits the legislature's understanding and, therefore, policy input on how Montana should or will respond to the federal law.

Information Needed

The legislature needs the following information in order to evaluate the Executive Budget request for federal welfare reform implementation:

1) What mandatory requirements in the new federal law are:

•already contained in FAIM, and

•are not contained in FAIM, and therefore expected to have a programmatic and/or a fiscal impact?

2) What <u>optional</u> issues in the new federal law are:

- issues addressed in FAIM and proposed in the revised state plan to continue;
- issues addressed in FAIM and proposed in the revised state plan to <u>discontinue</u>;
- issues not addressed in FAIM but proposed in the revised state plan for implementation; and
- issues not addressed in FAIM and not addressed in the revised state plan?

3) For the mandatory requirements in #1 and optional issues in #2 that represent a change from "current FAIM", what are the fiscal impacts for the 1999 biennium?

4) How will the requirements and/or optional issues identified in 1 & 2 above impact current public assistance recipients in Montana?

5) How does the executive branch propose allocating the TANF block grant funds and the Child Care and Development Funds? How does this compare to the amount and program allocation of fiscal year 1996 expenditures?

6) Will the legislature need to revise existing statutes or pass new legislation in order to implement the new federal law in Montana?

Child Support Enforcement

Federal welfare reform will have a major impact on child support enforcement operations. For a detailed discussion, please see the "Program Issues" section of the narrative for that division.

Reorganization

PHHS was created by the 54th Legislature through passage of SB 345, which reorganized Montana's public health and human services agencies. PHHS was formed by combining: 1) all of the former Department of Social and Rehabilitation Services (SRS); 2) all but juvenile corrections of the former Department of Family Services; 3) mental health, chemical dependency, and special services of the former Department of Corrections and Human Services; and 4) the public health programs of the former Department of Health and Environmental Sciences. Nearly half of the PHHS employees were transferred from programs administered by the former Department of Corrections and Human Services, due in large part to the transfer of several state institutions such as the State Hospital, Center for the Aged, Montana Developmental Center, and Eastmont Human Services Center. More than three quarters of the department's appropriated 1997 biennium budget was transferred from the former SRS, largely due to the Medicaid Program, which accounted for 51 percent of the total budget.

In regard to the costs incurred to implement the reorganization during fiscal 1996, the fiscal note for SB 345 stated that vacancy savings realized in fiscal 1996 would be sufficient to pay all costs. The Legislative Finance Committee requested (in October 1995) that PHHS establish a separate financial record in the Statewide Budgeting and Accounting System (SBAS) in which to record all quantifiable reorganization costs. Such costs

as moving charges, computer and telephone system modifications, painting, carpeting, equipment replacement, and any advisory committees established to aid in the reorganization were to be recorded.

The purpose of this analysis is to quantify the direct costs attributable to reorganization of PHHS in fiscal 1996, and to describe and quantify those indirect costs reasonably attributable to reorganization. This analysis does not include an evaluation of potential fiscal, programmatic, service, or operational efficiencies and economies that may have resulted as a result of reorganization.

Table 7 presents a summary of the total costs incurred as a result of reorganization at PHHS during fiscal 1996. Direct costs totaled $740,865 and included $102,770 for such one-time-only costs as moving expenses, communication system changes, telephone relocations, public outreach and employee training, and sign changes. Other one-time-only, direct costs included $264,353 to paint and remodel the Cogswell Building. An additional $176,000 was expended on a professional services contract with the University of Montana for a facilitator for the Reorganization Advisory Council (and to provide advice regarding realignment of service delivery systems). In addition, net personal services costs that were the result of position upgrades and downgrades caused by reorganization, according to the Department of Administration, were included as a direct cost of $197,742.

The Department of Administration determined that 41 upgrades and 4 downgrades of personnel positions occurred at PHHS as a direct result of changes in duties due to the reorganization. For example, supervision of additional employees or expansion of program responsibilities are defined as changes in duties. Using fiscal 1996 as a base, the annual cost of this reorganization-caused increased employee compensation totals $197,742. The full fiscal impact of these upgrades will not be incurred until the close of fiscal 1997, but are reflected in the 1999 biennium budget.

Funding for the one-time-only costs of reorganization (including the Cogswell Building remodel) and the University of Montana professional services contract is comprised of 49 percent proprietary funds (federal source), 29 percent federal special revenue, 18 percent (or about $133,000) general fund, and 4 percent state special revenues.

The preceding analysis addresses only quantifiable costs, directly attributable to reorganization. There are multiple indirect costs attributable to reorganization, that are not easily quantifiable or documented in the department's accounting system. Examples of two such indirect costs are: 1) personal services costs incurred as a result of PHHS employee attendance at 11 Reorganization Advisory Council meetings and 11 Employee Workgroup meetings; and 2) productivity losses due to the physical location move of the offices of 289 PHHS employees. An estimate of the total of these indirect costs is $41,531 and is included in Table 7. Time estimates are conservative in nature. For example, personnel time spent on space allocation, financial system realignment, and individual employee-related reorganization generated management issues are not included in this estimate of indirect costs. The following paragraph summarizes how the estimate of the included indirect costs of $41,531 was calculated.

Table 7
Costs of Reorganization
PHHS

Cost Category	Amount Expended FY 96
Direct Costs	
One-Time Only (due to reorganization)	
Moving Expenses	$14,000
Communication System Changes	35,000
Public Outreach and Employee Training	33,000
Telephone Relocation	3,000
Sign Changes	4,700
Accounting/Personnel System	3,340
Temporary Help	5,300
Miscellaneous	4,430
Cogswell Building Remodel (paint, carpet)	264,353
Subtotal of One-Time Only's	$367,123
University of MT Professional Service Contract	176,000
Personal Services–Net Costs of Position Up & Down Grades	197,742 *
Subtotal of Direct Costs	$740,865
Indirect Costs	
Personal Services – PHHS Employees, Advisory Council	$23,867
Productivity Losses Due to Physical Move of 289 Employees	17,664
Subtotal of Indirect Costs	$41,531
Total Direct and Indirect Costs	$782,396

* The full fiscal impact of these upgrades will not be incurred until the close of fiscal 1997.

Personal services costs incurred by the participation of an estimated average of seven PHHS employees (primarily managers) in the 11 advisory council meetings, and 25 other PHHS employees in the 11 Employee Workgroup meetings, were not recorded separately in SBAS. Hence, a department-wide average compensation rate of $15.28 per hour was used to arrive at an estimated personal services cost of $23,867. Only hours spent in attendance at the meetings were estimated (i.e. preparation time was not estimated). This average compensation rate was also used to estimate the productivity losses due to the physical relocation of the offices of 289 employees. It is estimated that the move disrupted four hours of each relocated employee's normal work duties, for a total indirect loss of $17,664. This analysis does not include estimates of any other potential productivity losses that could have been the result of reorganization.

In summary, the total direct and indirect cost of reorganization of PHHS equaled $782,396.

Of this amount, $740,865 are attributable to direct costs; and $41,531 are very conservatively estimated indirect costs.

6901 03

Department of Public Health & Human Services — **Child & Family Services Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	784.40	(5.00)	5.25	784.65	(5.00)	13.00	792.40	784.65
Personal Services	25,068,670	996,724	156,113	26,221,507	1,061,619	392,282	26,522,571	52,744,078
Operating Expenses	9,090,969	(1,081,894)	147,147	8,156,222	(1,031,513)	179,674	8,239,130	16,395,352
Equipment	153,517	(34,117)	17,500	136,900	(62,517)	0	91,000	227,900
Grants	10,991,510	2,707,023	664,000	14,362,533	3,680,478	664,000	15,335,988	29,698,521
Benefits and Claims	83,707,138	(5,742,820)	3,671,643	81,635,961	(4,005,078)	4,263,035	83,965,095	165,601,056
Transfers	0	0	0	0	0	0	0	0
Debt Service	21,151	0	0	21,151	0	0	21,151	42,302
Total Costs	$129,032,955	($3,155,084)	$4,656,403	$130,534,274	($357,011)	$5,498,991	$134,174,935	$264,709,209
General Fund	40,617,466	(2,564,190)	2,047,526	40,100,802	(2,202,276)	2,523,655	40,938,845	81,039,647
State/Other Special	7,352,990	(11,497)	0	7,341,493	(15,929)	0	7,337,061	14,678,554
Federal Special	81,062,499	(579,397)	2,608,877	83,091,979	1,861,194	2,975,336	85,899,029	168,991,008
Total Funds	$129,032,955	($3,155,084)	$4,656,403	$130,534,274	($357,011)	$5,498,991	$134,174,935	$264,709,209

Program Description

The Child and Family Services (CFS) Division administers child welfare services, public assistance, employment and training programs, child care assistance, child care licensing, child and adult food care programs, food stamps, commodity distribution, low-income energy assistance and home weatherization, and several other grant programs designed to foster self sufficiency and a safe, healthy environment for families and children. CFS oversees five regional offices that administer programs and are advised by Local Youth Services Advisory Councils which serve as the link between local communities and DPHHS. CFS also provides the user liaison for two large statewide computer system applications: TEAMS (The Economic Assistance Management System) and CAPS (the Child and Adult Protective Services) system.

Public assistance programs are administered by county offices responsible for eligibility determinations for the FAIM (Families Achieving Independence in Montana) program, Medicaid, food stamps, and energy assistance. The state continues to administer 12 county programs and the Governor's Advisory Council on Child Care is administratively attached to the division. Title 43, Chapter 3, and Title 53, Chapters 2, 3, and 4,MCA provide duties of the division.

Funding

The division is funded by general fund, state special revenue, and federal funds. General fund provides: 1) the match and maintenance of effort for several federal entitlement and block grant programs; 2) funding for prevention of abuse and neglect of children; and 3) funding for administrative and services costs that are not supported by state special or federal revenues. General fund decreases 1.3 percent from fiscal 1996 to 1998 due primarily to the AFDC/FAIM caseload projections and the transfer of the therapeutic Medicaid match to the Addictive and Mental Disorders Division to fund the Mental Health Access Plan. In fiscal 1999, general fund increases two percent from fiscal 1998 due to the projected foster care and FAIM caseload increases.

State special revenue includes: 1) property tax revenue from non-assumed counties for administration and benefits match for public assistance programs, child welfare administration, and foster care services; 2) parental contributions, child support payments, and third party payments for foster care services; and 3) income tax check off revenue for child abuse prevention programs. State special revenue decreases slightly

in the 1999 biennium.

Federal funds include several block grants, categorical grants, entitlement programs, and administrative funding. The major federal block grants are: 1) the Temporary Assistance to Needy Families (TANF) program; 2) the Low-Income Energy Assistance Payments (LIEAP) program; 3) the Child Care and Development Fund; and 4) low-income weatherization. Other federal funding sources include: a) Title IV-E (foster care); b) food stamps and Medicaid administrative funding; c) the Child and Adult Food Care Program; d) commodities distribution; e) refugee assistance; f) emergency shelter; and g) several child abuse and prevention grants. Federal funds increase 2.5 percent in fiscal 1998 from fiscal 1996 due to increased child nutrition grants and the child care grant offset by reduced TANF expenditures. Federal funds continue their upward trend in fiscal 1999 because the FAIM caseload projection increases in fiscal 1999 from fiscal 1998.

Table 7 below restates the 1999 biennium Executive Budget into functional categories. Public assistance functions include: 1) eligibility determination for FAIM, Medicaid, food stamps and energy assistance by the staff in the assumed and non-assumed county offices; 2) benefit payments provided under the state's welfare program; 3) emergency assistance; and 4) the state's jobs programs. The cost of this function is expected to decrease 6.6 percent in fiscal 1998 from fiscal 1996 due to the projected caseload decrease in the FAIM program. As the projected caseload increases in fiscal 1999, so does the cost.

Child Care functions include resource and referral contracts and child care assistance benefits. Resource and referral agencies serve as a referral service for eligible parents seeking appropriate child care, and they also perform some administrative functions that would otherwise be performed by the department (such as processing payments). The cost of the child care function increases 48.6 percent in the Executive Budget from fiscal 1996 to 1998 because of the anticipated increasing need for child care due to state and federal welfare reform. As people move from cash assistance to work, child care needs are expected to grow.

Family services include: 1) staff and operations of five regional child protective services offices; 2) benefit payments for foster care, independent living, and subsidized adoption; 3) family preservation and family-based services; and 4) other programs. The family services functions shows a decrease from fiscal 1996 to fiscal 1998. However, this is caused by a $2,296,876 expenditure transfer (therapeutic Medicaid match) from this division to the Addictive and Mental Disorders Division. Not including the transfer, the family services budget increases approximately 6.5 percent from fiscal 1996 to 1998 due to increased foster care caseloads and enhanced expenditures for family preservation services.

The intergovernmental human services function includes child nutrition services, low income energy assistance and weatherization programs, and commodities distribution. Increased funds for commodities distribution and children's meal reimbursement to day care providers contribute the most toward the projected 10 percent increase from fiscal 1996 to 1998.

The state administration function includes all Helena-based staff and operating costs except those budgeted in the intergovernmental human services function. Costs are projected to increase 3.1 percent from fiscal 1996 to 1998 in the Executive Budget.

Table 7
Child and Family Services Division
Executive Budget Recommendation
1999 Biennium

	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Percent Change FY96-98	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Percent Change FY98-99
Function									
Public Assistance	$63,897,284	($4,238,858)	$0	$59,658,426	-6.63%	($3,543,691)	$0	$60,353,593	1.17%
Child Care	7,863,817	371,534	3,451,636	11,686,987	48.62%	962,308	3,717,701	12,543,826	7.33%
Family Assistance	32,871,144	(1,266,139)	962,677	32,567,682	-0.92%	(701,806)	1,519,425	33,688,763	3.44%
Intergovernmental Human Services	20,444,221	2,073,468	25,000	22,542,689	10.26%	3,073,598	25,000	23,542,819	4.44%
State Administration	3,956,489	(95,089)	217,090	4,078,490	3.08%	(147,420)	236,865	4,045,934	-0.80%
Total	$129,032,955	($3,155,084)	$4,656,403	$130,534,274	1.16%	($357,011)	$5,498,991	$134,174,935	2.79%
Funding									
General Fund	$40,617,466	($2,564,191)	$2,047,526	$40,100,801	-1.27%	($2,202,277)	$2,523,656	$40,938,845	2.09%
State Special Revenue	7,352,990	($11,496)	0	7,341,494	-0.16%	(15,928)	0	7,336,762	-0.06%
Federal Special Revenue	81,062,499	($579,397)	2,608,877	83,091,979	2.50%	1,861,194	2,975,336	85,899,328	3.38%
Total	$129,032,955	($3,155,084)	$4,656,403	$130,534,274	1.16%	($357,011)	$5,498,991	$134,174,935	2.79%

Federal Block Grants

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 repeals the AFDC entitlement program and replaces it with a block grant of a fixed amount through federal fiscal year 2002. (See the agency summary for a complete discussion of the new federal welfare reform law and related budget issues). Child care funding is also changed by the new federal welfare reform law. Funding formerly provided under Title IV-A of the Social Security Act and the Child Care Development Block Grant will be consolidated into a Child Care and Development Fund with three parts: 1) a discretionary grant, allocated to states on the current allocation formula for the child care development block grant; 2) a mandatory grant, allocated to states on the basis of the federal share of expenditures for IV-A child care in fiscal 1994, fiscal 1995, or the average of fiscal years 1992 to 1994, whichever is greatest; and 3) a matching grant, which carries a state maintenance of effort and matching requirements.

The block grant funding begins when the U.S. Department of Health and Human Services certifies that Montana's state plan is complete. The department submitted Montana's state plan in early November 1996, but no action had been completed at the time of this writing. The Executive Budget recommendation was developed using the old funding system for both AFDC and child care. The new funding system can essentially replace the old funding system. However, there are certain factors the legislature should be aware of:

- AFDC funds formerly required a state match at the prevailing FMAP rate. Under the new law, a specific state match is not required for the TANF block grant. However, in order to continue receiving the TANF block grant and avoid sanctions, the state is required to maintain fiscal effort at 75 percent of its state share of AFDC expenditures for fiscal 1994 if it meets the mandatory worker participation rates, and at 80 percent if it does not meet the worker participation rates. In addition, the state must

maintain 100 percent of its state share of AFDC expenditures for fiscal 1994 if it needs to access contingency funds that may be available during economic recessions. See Table 8 for the dollar amount of the maintenance of effort.

•There is an administrative cap of 15 percent on the TANF block grant and 5 percent on the Child Care and Development Fund. In addition, the Child Care and Development Fund contains a 4 percent set-aside for activities to improve the quality and availability of care, such as consumer education and resource and referral services.

•TANF block grant funds can be carried over from year to year.

•The new federal law provides states flexibility in developing welfare programs appropriate to the state's needs. It also contains mandatory requirements and optional issues that impact Montana. The issue presented in the agency summary highlights some of these requirements and issues and suggests the legislature seek additional information from the department before taking action on this budget.

Table 8 presents the TANF-related and Child Care and Development Fund-related expenditures contained in the Executive Budget and compares it to the anticipated block grant funding in the 1999 biennium. As shown in the table, the TANF-related expenditures (federal portion only) contained in the Executive Budget are significantly less than the anticipated TANF block grant amount. Child Care and Development Fund-related expenditures contained in the Executive Budget are slightly less than the anticipated block grant amount in fiscal 1998 and slightly more than the anticipated block grant amount in fiscal 1999.

LFD Issue - The Legislative Fiscal Division requested a budget allocation proposal from the department that reflected the block grant funding under the new federal welfare reform law. The department indicated it did not have a revised budget proposal prepared but was intending to do so for presentation to the 1997 legislature. Due to the size of the block grant, the unallocated funds that would result if the proposed Executive Budget was adopted, and the complexity of the law, the legislature may wish to require a revised budget. The department should detail proposed block grant allocations and state funds' allocations necessary to meet program goals, projected caseloads, the maintenance of effort requirements, matching requirements for child care matching funds, administrative caps, and child care set-aside. Due to non-availability of this budget information, a complete analysis was not possible.

Table 8
Estimated Federal Block Grant Funding
Personal Responsibility and Work Opportunity Reconciliation Act of 1996
1999 Biennium

		TANF-Related Executive Budget		Child Care-Related Executive Budget	
Function	Name	Fiscal 1998	Fiscal 1999	Fiscal 1998	Fiscal 1999
Public Assistance	Welfare Reform Support Service	$395,874	$378,564	$0	$0
	AFDC/FAIM (Benefits)	32,339,778	32,339,778	0	0
	AFDC/TANF Caseload Adjust.	(3,508,998)	(2,630,394)	0	0
	Emergency AFDC	47,480	47,480	0	0
	JOBS	2,682,176	2,682,176	0	0
Child Care	Day Care FMAP	$0	$0	$2,399,644	$2,701,673
	FAIM Child Care Support	0	0	2,339,335	2,457,282
	Day Care Provider Rate Increase	0	0	58,985	119,622
	Day Care (50/50) Admin	0	0	1,970	1,962
	Day Care FMAP	0	0	782,879	885,707
	Day Care (100% Fed)	0	0	2,632,330	2,622,309
	Child Care Block Grant Increase	0	0	508,808	508,808
Family Services	Regional Administration	$804,362	$803,557	$57,894	$58,103
	Permanency Planning Staff	8,750	89,096	0	0
	Foster Care	653,783	631,510	0	0
	Family Based Services	67,174	67,174	0	0
	Foster Care Caseload Increase	23,632	46,204	0	0
State Administration	Program Administration	$564,056	$558,239	$39,713	$39,502
	Day Care Licensing Staff	65,203	77,662	0	0
Indirect Costs**	Child/Family Svcs Division	$2,895,867	$2,902,186	$127,120	$127,397
	Other Divisions in PHHS	1,708,133	1,701,814	62,080	61,803
Total Block Grant Funds in Executive Budget		$38,747,270	$39,695,046	$9,010,758	$9,584,168
Anticipated Block Grant Funding Level*		$45,534,006	$45,534,006	$9,148,894	$9,466,385
Unallocated Federal Funds		$6,786,736	$5,838,960	$138,136	($117,783)
State Maintenance of Effort Requirements***		$20,919,224	$20,919,224	$1,315,298	$1,315,298

*The TANF block grant is fixed at $45.534 million through federal fiscal year 2002. The matching portion of the Child Care and Development Fund block grant is scheduled to increase through federal fiscal year 2002. In order to fully access the matching funds, the state's expenditures would also have to increase.

**Indirect Costs are estimated from actual fiscal 1996 allocations.

***The maintenance of effort (MOE) amount shown for the TANF grant is 100% MOE and is required if the state needed access to "recession" funds. The law requires a 80% MOE in order to continue receiving the block grant, or 75% if the state meets worker participation requirements. The state must spend at least the MOE shown for the Child Care and Development Fund block grant to receive the matching funds.

Welfare Benefits Cost Projection

In August of 1996, the Personal Responsibility Act of 1996 was signed into law, creating the Temporary Assistance for Needy Families (TANF) program. This program replaces the federal/state Aid for Families with Dependent Children (AFDC) program. In February of 1996, Montana implemented a welfare reform initiative known as Families Achieving Independence in Montana (FAIM) under a federal waiver for AFDC. The final phase of FAIM implementation is scheduled for February of 1997.

The projected caseload estimates and cost of welfare benefits during the 1999 biennium are based on historical expenditures under the former AFDC program, and under the partially-implemented FAIM initiative. The executive estimates for caseload and welfare benefits costs are shown in the table and graph below.

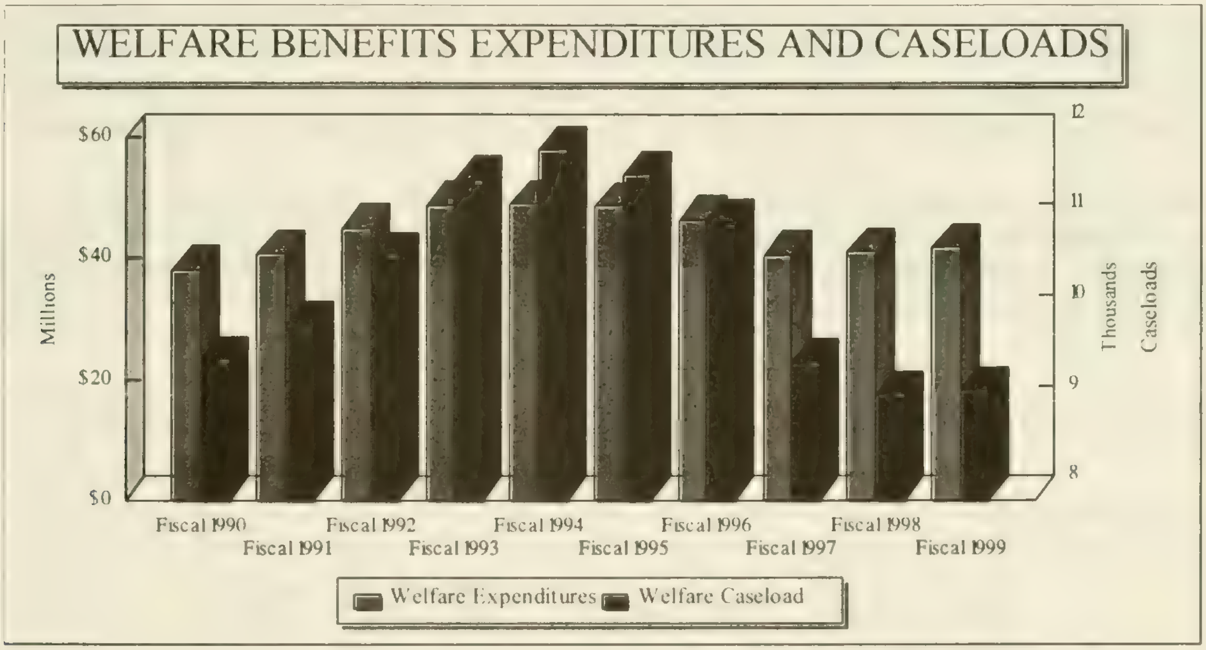


Table 9
Child and Family Services Program
Welfare Expenditure and Caseload Projections

State Fiscal Year	Average Monthly Welfare Caseload	Total Annual Welfare Expenditures	Annual Change Average Monthly Welfare Caseload	Annual Change Welfare Expenditures
1990	9,550	$38,104,638		
1991	9,937	40,731,461	4.05%	6.89%
1992	10,696	45,058,302	7.65%	10.62%
1993	11,534	48,747,792	7.83%	8.19%
1994	11,861	48,945,741	2.84%	0.41%
1995	11,587	48,632,612	-2.31%	-0.64%
1996	11,051	46,531,671	-4.63%	-4.32%
1997	9,514	40,563,753	-13.91%	-12.83%
1998	9,154	41,087,045	-3.78%	1.29%
1999	9,201	41,773,600	0.51%	1.67%

LFD Comment - The executive's AFDC caseload projection reflects a core caseload reduction of approximately 335 cases due to the implementation of the state's welfare reform program. The executive anticipates that some of those recipients that initially drop out of FAIM will return.

The executive is unclear in the assumptions used to estimate the total cash assistance benefits. Using the information that was submitted with the executive recommendation, the average monthly benefit amount appears to be increasing at a faster rate in the 1999 biennium compared to fiscal years 1992 to 1996. In fiscal 1996, the average monthly benefit amount was $350.89. From fiscal years 1992 - 1996, the average monthly benefit amount increased at a compounded rate of 0.9 percent annually. From fiscal 1996 - 1999, the average monthly benefit amount implied in the Executive Budget reflects a compounded increase of 2.5 percent annually, ending the 1999 biennium with an average monthly benefit amount of $378.34.

Discussion with the Governor's Budget Office indicated that, in the final decision process of developing the estimated benefits amount, the benefits amount was adjusted, but the caseload projections were inadvertently not changed. They also indicated that the average monthly benefit amount was estimated to increase to $366.57 by the end of fiscal 1999, much lower than the amount derived from the budget recommendation.

Table 10 below shows the number of cases that could be served if the average monthly benefit amount was at the level intended by the executive and the total benefits payments stayed at the level contained in the Executive Budget. As the table shows, the caseload would be 9,481 in fiscal 1998 and 9,497 in fiscal 1999, or 623 total cases more than projected in the Executive Budget.

Table 10
Recalculation of Welfare Caseload
Child and Family Services Division

Fiscal Year	Average Monthly Caseload	Annual Change	Total Annual Expenditures	Annual Change	Average Monthly Benefit	Annual Change
			—— ACTUAL -----			
1990	9,550		$38,104,638		$332.50	
1991	9,937	4.05%	40,731,461	6.89%	$341.58	2.73%
1992	10,696	7.64%	45,058,302	10.62%	$351.05	2.77%
1993	11,534	7.83%	48,747,792	8.19%	$352.20	0.33%
1994	11,861	2.84%	48,945,741	0.41%	$343.88	-2.36%
1995	11,587	-2.31%	48,632,612	-0.64%	$349.76	1.71%
1996	11,051	-4.63%	46,531,671	-4.32%	$350.89	0.32%
			—— PROJECTED ——			
1997	9,500	-14.03%	$40,563,753	-12.83%	$355.82	1.41%
1998	9,481	-0.20%	41,087,045	1.29%	$361.13	1.49%
1999	9,497	0.16%	41,773,600	1.67%	$366.57	1.51%

Source: 1999 Biennium Executive Budget

The legislature may wish to seek clarification of the executive recommendation for welfare benefits expenditures, including the caseload projection, the average monthly benefit amount, and any other factors considered.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6901 03 Department of Public Health & Human Services Child & Family Services Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	996,724	1,061,619
02		Inflation/Deflation	(2,256)	(3,562)
03		Fixed Costs	14,531	14,531
		Total Statewide Adjustments	$1,008,999	$1,072,588
Significant Present Law Adjustments				
04	91040	Welfare Reform Support Services	791,748	757,128
05	91333	Afdc/Tanf Caseload Adjustment	(5,281,888)	(4,595,333)
06	91338	Child Care Block Grant Increase	508,808	508,808
07	91339	Reduction In Federal Jobs Grant	(630,815)	(630,815)
08	91341	Csbg & Commodities Program Adjustment	275,831	275,831
09	91342	Nutrition Program Operating & Grant Incr	1,750,313	2,706,478
10	91343	Foster Care Caseload Increase	473,584	958,579
11	91347	Family Preservation Program Services Incr	330,643	365,224
12	91351	Domestic Violence Grant Increase	23,879	23,879
13	91352	Youth Alcohol & Drug Treatment	25,409	25,409
14	91360	Transfer Therapeutic Medicaid Match	(2,296,876)	(2,296,876)
		Total Significant PL Adjustments	($4,029,364)	($1,901,688)
Other Base Adjustments			($134,719)	$472,089
		Grand Total Present Law Adjustments	($3,155,084)	($357,011)

LFD Comment **- Contained in the Personal Services Statewide Present Law Adjustments are budgeted increases for positions upgraded as a result of implementing the FAIM welfare reform program. Approximately $560,000 annually is included to pay for the upgraded positions; nearly 50 percent of the funding is from state funds (general fund and county levy), and the remainder is from federal indirect cost recoveries.**

LFD Issue **- The agency also indicated that because TANF will be implemented statewide, additional upgrades are likely. However, the agency was unable to identify the number of additional FTE that would be impacted or the related increased cost. The legislature may want to ask the agency to provide that information for legislative consideration prior to taking action on this budget.**

4) Welfare Reform Support Services - The Executive Budget adds $791,748 in fiscal 1998 and $757,122 in fiscal 1999 for increases to support services associated with the implementation of Families Achieving Independence in Montana (FAIM), the welfare reform initiative. The support is divided into three areas: 1) supportive service funds to assist welfare participants in finding and maintaining employment, including payment for such items as driver's license renewal, alcohol and drug evaluation fees, and adult basic education and GED fees; 2) continuation of the welfare reform plan evaluation contract with the University of Montana, which is in relation to the Medicaid and Food Stamp programs; and 3) continuation of contracts with the day care resource and referral agencies to handle the increased requirements for assistance in finding day care for FAIM participants.

LFD Comment **- The present law adjustment includes $298,008 each year for items 2) and 3) described above. The remainder, $493,740 in fiscal 1998 and $459,120 in fiscal 1999, is for supportive service funds. The agency states that because FAIM's implementation was staggered beginning in February 1996 (eight counties representing approximately 9 percent of the total AFDC cases in fiscal 1996), the fiscal 1996 expenditures for these types of services (approximately $11,000) were not representative of the expected cost. This present law adjustment is funded 50 percent from general fund and 50 percent from federal AFDC administration funds. The federal portion of this adjustment is included on the "Estimated Federal Block Grant" table (Table 8) in the funding section of this division's narrative.**

5) <u>AFDC/TANF Caseload Projection</u> - The Executive Budget decreases $5,281,888 in fiscal 1998 and $4,595,333 in fiscal 1999 for the projected Aid to Families with Dependent Children/Temporary Assistance for Needy Families caseload reduction.

<u>LFD Comment</u> **- The present law adjustment is funded with state funds and federal AFDC/TANF funds at the estimated FMAP rate. The decline is due to the projected caseload reduction as noted in Table 9. The federal portion of this adjustment is included on the "Estimated Federal Block Grant" table (Table 8) in the funding section of this division's narrative.**

6) <u>Child Care Block Grant Increase</u> - The Executive Budget adds $508,808 each year of the biennium for increased child care expenditures from the Child Care and Development Block Grant to provide services for families meeting income guidelines for the program. All families make a co-payment based on a sliding fee scale.

<u>LFD Comment</u> **- The federal portion of this adjustment is included on the "Estimated Federal Block Grant" table in the funding section of this division's narrative.**

7) <u>Reduction in Federal JOBS Grant</u> - The Executive Budget decreases $630,815 each year of the biennium based on the fiscal 1997 grant awards which reflect an overall reduction of federal funding for benefits associated with the Jobs Opportunity and Basic Skills (JOBS) and Job Search Programs.

<u>LFD Comment</u> **- The TANF block grant replaces the JOBS grant. As shown in Table 8, there are sufficient TANF funds to cover the federal share of this reduction.**

8) <u>CSBG & Commodities Program Adjustments</u> - The Executive Budget adds $275,831 each year of the biennium for the following: a contract to develop a data base for use in managing the Community Services Block Grant ($30,000); an increase in the commodity distribution level ($138,257); and the debt payments on the new commodities warehouse ($107,574).

<u>LFD Comment</u> **- This present law adjustment is funded with federal funds.**

9) <u>Nutrition Program Operating & Grant Increases</u> - The Executive Budget adds $1,750,313 in fiscal 1998 and $2,706,478 in fiscal 1999 primarily for increases in nutrition program grants ($1,671,887 in fiscal 1998 and $2,628,052 in fiscal 1999) and also for development and enhancement of a computer system to monitor program activities and implement requirements associated with federal welfare reform (the Personal Responsibility and Work Opportunity Reconciliation Act of 1996).

<u>LFD Comment</u> **- This present law adjustment is funded with federal funds. Approximately 85 percent of the expenditures in this program are for reimbursements to child care providers to provide nutritious food to children in day care. The computer enhancement included in the adjustment is to enable the program to institute means-testing and a two-tiered reimbursement structure required by the new federal welfare reform law.**

10) <u>Foster Care Caseload Increase</u> - The Executive Budget adds $473,584 in fiscal 1998 and $958,579 in fiscal 1999 to provide benefits for the increased foster care caseload and for two contracts between the department and tribal entities that enable the tribes to administer Title IV-E services.

<u>LFD Issue</u> **- The department was unable to provide actual fiscal 1996 caseload data and assure its accuracy because of computer system implementation problems. However, caseload data from fiscal years 1993 to 1995 show that caseloads have been increasing approximately 2.25 percent annually. If the client caseload**

continues to grow at that rate, the present law benefits adjustment included for the foster care caseload increase, combined with the foster care benefits base amount of $12,450,771, will provide approximately $3,248 per client in fiscal 1998 and $3,297 per client in fiscal 1999. The estimated benefits cost per client in fiscal 1996 was $3,307. The department should provide fiscal 1996 actual caseloads and projected caseloads for the 1999 biennium, along with assumptions used in the projections to the legislature, before it takes action on this budget.

11) Family Preservation Program Services Increases - The Executive Budget adds $330,643 in fiscal 1998 and $365,224 in fiscal 1999 for increasing intensive family preservation assistance for families in danger of having their children removed from the home because of abuse and neglect; and contracted services for staff training to enhance skills in assessing families at risk of neglect and abuse of their children and determining how best to assist these families.

LFD Comment **- The base expenditure for this program was $185,747. Family preservation services are funded from a federal grant that is expected to last five years and expire in fiscal 1999. Because federal funds are slated to end for this program, the legislature may want to discuss long term plans for this program before taking action on the budget. The grant requires a 25 percent match which comes from local funds and the state-funded Partnership Project.**

LFD Issue **- The proposed present law adjustment nearly triples the size of the base year expenditures for this program. (See Table 11 in the "New Proposals" section of this narrative.) This program is part of a continuum of family preservation services that has been evaluated and whose evaluation report is forthcoming. Consequently, there was no performance information and little service data available for budget analysis. Due to the magnitude of the adjustment and the first-ever evaluation of this program, the legislature may want to consider this increase a new proposal and carefully review the evaluation report before taking action on this budget.**

12) Domestic Violence Grant Increase - The Executive Budget adds $23,879 each year of the biennium for increased grants to local agencies to pay for shelter, counseling, and other support services for women and their children who are victims of domestic violence, to support a 24-hour crises line, and the provision of public awareness and education programs. The increase is based on the fiscal 1997 appropriation and level of contracts.

LFD Issue **- Base expenditures for this program were $318,237, funded with 39 percent general fund and 61 percent federal funds. The present law base and present law adjustment is funded with 43 percent general fund and 57 percent federal grant funds. Restoring the funding split for this program to base year percentages would save $13,029 general fund each year of the biennium.**

13) Youth Alcohol & Drug Treatment - The Executive Budget adds $25,409 each year of the biennium to provide increased alcohol and drug treatment benefits for indigent youth who have been adjudicated in need of supervision or care, or who are delinquent. The increase is based on the fiscal 1997 appropriation and level of contracts.

LFD Issue **- This program is supported entirely with general fund. Base expenditures for this program were $135,630, or 84 percent of its fiscal 1996 appropriation. Therefore, this adjustment represents an 18.7 percent increase. The department was unable to provide information on the number of youth served in this program.**

14) Transfer Therapeutic Medicaid Match - The Executive Budget reflects a decrease of $2,296,876 each year of the biennium due to a transfer of the general fund Medicaid match for therapeutic group home and therapeutic family care to the Addictive and Mental Disorders Division. These funds will pay for treatment for foster care children under the Mental Health

Managed Care Program.

Other Base Adjustments - Numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

6901 03
Department of Public Health & Human Services **Child & Family Services Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	State Food Bank Network		25,000		25,000		25,000		25,000
02	Family Preservation Services		664,000		664,000		664,000		664,000
03	Faim Child Care Support		1,017,906	2,339,335	3,357,241		1,068,986	2,457,282	3,526,268
04	Increase		180,415	93,262	273,677		409,961	190,903	600,864
05	Day Care Provider Rate Increase		35,410	58,985	94,395		71,811	119,622	191,433
06	Permanency Planning Staff		16,250	8,750	25,000	6.00	165,465	89,096	254,561
07	Contract Monitoring Staff	1.50	34,592	34,592	69,184	2.00	40,771	40,771	81,542
08	Day Care Licensing Staff	3.75	65,203	65,203	130,406	5.00	77,662	77,662	155,323
09	Equipment For New Staff		8,750	8,750	17,500				
	Total For New Proposals	5.25	$2,047,526	$2,608,877	$4,656,403	13.00	$2,523,655	$2,975,336	$5,498,991

Executive New Proposals

1) State Food Bank Network - The Executive Budget adds $50,000 during the biennium, as a biennial appropriation, to provide grants to the state food bank network. As the state continues to implement welfare reform provisions, both federal requirements and components of the Families Achieving Independence in Montana (FAIM), Montana's welfare reform initiative, these funds will assist the state food bank network in coordinating efforts by local food banks to serve as a safety net against hunger in Montana.

LFD Issue **- This proposal is funded 100 percent with general fund. There are no details included in the proposal on how the funds will be distributed, how they are intended for use, or how the legislature will be assured the programs were effective.**

2) Family Preservation Services - The Executive Budget adds $664,000 each year of the biennium for families most at risk of abusing or neglecting their children, to provide services which assist in stabilizing and strengthening those families while maintaining the children's safety. Two primary goals are to decrease out-of-home placement of children and to reduce the incidence of child abuse and neglect.

Family preservation services are provided through local project contracts, and include home visiting, parent education, parent support, stress and anger management, mental health therapy, transportation, and linkage to preventive health services. The average cost of services ranges from $170 to $1,800 per year, compared to an average annual cost for foster care placement of $2,135. This proposal will expand services which are in 24 communities to 10 additional communities.

LFD Comment - **The new proposal is funded 100 percent with general fund. Family preservation services are part of a continuum of prevention and early intervention services developed by the department in response to the Montana Family Policy Act passed by the 1993 legislature. The first comprehensive evaluation of the program is due December 1996. The legislature may want to review the program evaluation prior to taking action on this budget.**

Table 11 below shows the present law budget and new proposals for family preservation services contained in the Executive Budget recommendation. If approved by the legislature, family preservation services would receive a 45.8 percent increase in fiscal 1998 and a 47.2 percent increase in fiscal 1999 from the fiscal 1996 base year expenditures.

Table 11
Family Preservation/Family Support Services
Child and Family Services Division
1999 Biennium Executive Budget

	Fiscal 1996 Actual			Fiscal 1998 Executive			Fiscal 1999 Executive		
	General Fund	Federal Funds	Total Funds	General Fund	Federal Funds	Total Funds	General Fund	Federal Funds	Total Funds
Partnership Project	$1,441,560	$0	$1,441,560	$1,576,870		$1,576,870	$1,577,190		$1,577,190
Family Preservation		185,747	185,747		184,850	184,850		184,851	184,851
Family Preservation- P/L Adjustment					330,643	330,643		365,224	365,224
Family Preservation-New Proposal				664,000		664,000	664,000		664,000
Family-Based Services	827,773	67,174	894,947	853,046	67,174	920,220	853,046	67,174	920,220
Total	$2,269,333	$252,921	$2,522,254	$3,093,916	$582,667	$3,676,583	$3,094,236	$617,249	$3,711,485
Increase over base year expenditures				$824,583	$329,746	$1,154,329	$824,903	$364,328	$1,189,231
Percent increase over base expenditures				36.34%	130.38%	45.77%	36.35%	144.05%	47.15%

3) <u>FAIM Child Care Support</u> - The Executive Budget adds $3,357,241 in fiscal 1998 and $3,526,268 in fiscal 1999 for increased child care services to participants in FAIM. Additional child care will be required to continue support of recipients in the Community Services and Pathways components of FAIM, as well as participants in FAIM who opt to forego cash assistance and participate in the Job Supplement Program. Under federal welfare reform, participants in the state Pathways program will be required to increase the number of hours of work-related activities from 10 hours per week to 20 hours per week. This proposal funds day care support for 1,700 more children in fiscal 1998 and 1,800 additional children in fiscal 1999, above the 1997 estimated caseload, at an average cost per child of approximately $2,000 annually.

LFD Comment - **Base year day care-related expenditures totaled $7,863,817 and served approximately 3,527 children at an average total cost (operations and benefits) of $2,229 per child. This new proposal will increase the number of children served by approximately 50 percent. The additional costs contained in this proposal are funded with general fund and federal child care funds. The federal portion of these costs are reflected in the "Estimated Federal Block Grant" funding table in the funding section of this narrative.**

4) <u>Foster Care Provider Rate Increase</u> - The Executive Budget adds $273,677 in fiscal 1998 and $600,864 in fiscal 1999 to fund a 1.5 percent provider rate increase for out-of-home foster care providers.

LFD Issue **- The provider rate increase amount contained in this new proposal is incorrectly calculated. The provider rate increase should be calculated on the base expenditures plus the present law adjustment for caseload increase. The cost of the recalculated provider rate increase is $203,632 in fiscal 1998 and $424,977 in fiscal 1999, or a reduction of $70,045 in fiscal 1998 and $175,887 in fiscal 1999 from the Executive Budget. Biennial general fund savings of $176,123 and federal fund savings of $69,809 would result from using the recalculated provider rate increases.**

5) Day Care Provider Rate Increase - The Executive Budget adds $94,395 in fiscal 1998 and $191,433 in fiscal 1996 to fund a 1.5 percent provider rate increase for all categories of day care providers.

LFD Issue **- The costs for this new proposal were also incorrectly calculated. In this case, the recalculated costs result in an increase from the executive recommendation of $79,200 over the 1999 biennium. The additional costs are funded with $29,664 general fund and $49,536 federal funds in the 1999 biennium.**

6) Permanency Planning Staff - The Executive Budget adds $25,000 in fiscal 1998 and $254,561 and 6.00 FTE in fiscal 1999. This proposal continues development of a comprehensive service delivery system, which was begun with a grant from the W.K. Kellogg Foundation, that focuses on placing children in a time frame that best meets each child's needs, reducing the number of children in the foster care system, and reducing the number of placements that children experience in out-of-home care. The request also contains funding ($25,000) to continue the "Treasure Book", a photo listing book featuring children waiting for an adoptive home to be identified for them. Permanency staff will be dedicated to developing permanent placements for children, through working with parents, foster care placement committees, attorneys, and judges.

LFD Comment **- Funding for this new proposal comes from 65 percent state general fund and 35 percent federal funds (Title IV-E of the Social Security Act, foster care funds).**

7) Contract Monitoring Staff - The Executive Budget adds $69,184 and 1.50 FTE in fiscal 1998 and $81,542 and 2.00 FTE in fiscal 1999 for expanded resources for contract monitoring related to approximately 500 contracts administered by the division.

LFD Comment **- The proposal is funded with 50 percent general fund and 50 percent federal fund indirect cost recovery.**

8) Day Care Licensing Staff - The Executive Budget adds $130,406 and 3.75 FTE in fiscal 1998 and $155,323 and 5.00 FTE in fiscal 1999 for additional day care licensing staff. The positions would be responsible to license and monitor approximately 2,300 day care facilities and this number is projected to increase as welfare reform increases demand for day care.

LFD Comment **- The new proposal is funded with 50 percent general fund and 50 percent federal fund indirect cost recovery. The department currently has 9.2 FTE to license and monitor the approximately 2,300 facilities.**

9) Equipment for New Staff - The Executive Budget adds $17,500 in fiscal 1998 to purchase personal computers for the contract monitoring and day care licensing staff.

Executive Language Recommendation

> "The appropriation for the state food bank network is a biennial appropriation that may be combined and spent in either year of the biennium."

"The department is authorized to retain 7.5 percent of the federal community services block grant and pass through the remaining 92.5 percent to the human resources councils (HRDCs). If during fiscal year 1998 or fiscal year 1999 the block grant falls below the federal fiscal year 1990 grant level, the department shall retain only 5 percent of the grant amount and pass through the remaining 95 percent to the HRDCs."

6901 04
Department of Public Health & Human Services — **Director's Office**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	29.50	(4.00)	1.50	27.00	(4.00)	2.00	27.50	27.00
Personal Services	1,216,870	(210,823)	46,329	1,052,376	(208,309)	61,773	1,070,334	2,122,710
Operating Expenses	1,143,266	(25,744)	323,261	1,440,783	29,675	323,261	1,496,202	2,936,985
Equipment	45,750	(6,250)	0	39,500	(3,750)	0	42,000	81,500
Total Costs	$2,405,886	($242,817)	$369,590	$2,532,659	($182,384)	$385,034	$2,608,536	$5,141,195
General Fund	619,604	(90,819)	162,578	691,363	(90,367)	168,130	697,367	1,388,729
State/Other Special	784,703	61,337	16,540	862,580	120,643	18,156	923,502	1,786,082
Federal Special	1,001,579	(213,335)	190,472	978,716	(212,660)	198,748	987,668	1,966,384
Total Funds	$2,405,886	($242,817)	$369,590	$2,532,659	($182,384)	$385,034	$2,608,536	$5,141,195

Program Description

The Director's Office is responsible for providing the overall agency direction for policy development and for coordinating the various human services programs administered by the department.

Administrative organization of the department is established in 2-15-112, 2-15-2201, and 53-2-201, MCA. The director of the department is appointed by the Governor as provided in Article VI, Section 6 of the Montana Constitution.

The Director's Office includes the offices of legal affairs; personnel services; public information; and state and local relations. The Telephone Devices for the Deaf (TDD) program is also included. The Board of Health and Human Services Appeals is attached to the Director's Office. In addition, the PHHS Statewide Advisory Council, and the Montana Health Care Advisory Council (MHCAC), which sunsets during the 1997 biennium, are attached.

Funding

The Director's Office is funded with a mixture of state and federal money which is determined through the federally-approved, department-wide cost allocation plan. Funding is allocated by complex ratios associated with work activities that support the department. (The plan was revised in fiscal 1996 as a result of reorganization.) PHHS is not using proprietary funds in their indirect cost allocation system. State general fund provides approximately 27 percent of the funding for the 1999 biennium. State special revenues provide approximately 35 percent of the program's 1999 biennium funding and are derived primarily from a telecommunications tax, and the indirect cost allocation plan to a lesser extent. The tax on telephone service connections provides 100 percent of the funding for the TDD program. Federal revenues provide 38 percent of support for the 1999 biennium.

LFD Issue **- A slight funding shift, resulting in a decrease of 3 percent in fiscal 1998 and 3.7 percent in fiscal 1999 federal funding is proposed. Offsetting increases in general fund and state special revenues result, totaling approximately $76,000 in fiscal 1998 and $96,500 in fiscal 1999. Therefore, reorganization has caused general fund to assume a greater burden in the support of the Director's Office.**

Executive Present Law

6901 04 Department of Public Health & Human Services Director's Office			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(210,823)	(208,309)
02		Inflation/Deflation	(1,561)	(2,126)
03		Fixed Costs	20,961	23,009
		Total Statewide Adjustments	($191,423)	($187,426)
Significant Present Law Adjustments				
04	91401	Contracted Services Adjustments	(29,922)	23,848
05	91402	Reorganization Reductions	(35,368)	(35,368)
		Total Significant PL Adjustments	($65,290)	($11,520)
Other Base Adjustments			$13,896	$16,562
		Grand Total Present Law Adjustments	($242,817)	($182,384)

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issue **- Item 1) Personal Services - The personal services adjustment is due primarily to the removal of four FTE from the program (totaling $143,235 is fiscal 1998 and $143,973 in fiscal 1999), and vacancy savings of 3 percent each year (totaling $31,115 in fiscal 1998 and $31,192 in fiscal 1999). Three of the four FTE reductions (a director, deputy director, and chief personnel officer of former agencies) were due to the reported efficiencies of reorganization. The fourth FTE reduction was due to the sunsetting of the MHCAC.**

4) Contracted Services Adjustments - The Executive Budget includes several adjustments for contracted services each year of the biennium. They include: decreases of $122,549 in fiscal 1998 and $127,549 in fiscal 1999 for a contract with the University of Montana to assist the department in implementing the reorganization approved during the 1995 legislature; increases of $66,163 each year of the biennium to assist the department in conducting a safety program aimed at reducing employee injuries and controlling workers' compensation costs; increases of $41,034 each year of the biennium for the department's public relations initiatives aimed at coordinating boards, commissions, and councils at the local and state level; increases of $17,000 each year of the biennium for temporary personnel services; increases of $32,915 in fiscal 1998 and $91,685 in fiscal 1999 for increased relay services in the Telephone Device for the Deaf (TDD) Program; and reductions of $64,485 each year of the biennium due to sunsetting of the MHCAC. The department is recommending separately, in a new proposal, the creation of a permanent public health and human services committee which will encompass the duties of the former MHCAC in combination with the duties of the Public Health Improvement Task Force, which has sunsetted.

LFD Issue **- The intended purpose of the contract with the University of Montana has changed. Rather than providing consulting advice regarding the reorganization of PHHS, it will be used to obtain assistance with federal law changes, service delivery, and management systems. In addition, the fiscal note for SB 345 stated that vacancy savings realized in fiscal 1996 were to offset all costs of reorganization. Hence, rather than a present law adjustment, this contract may be more appropriately described as a new proposal, requiring $115,000 in fiscal 1998, and $110,000 in fiscal 1999. A present law reduction of $237,549, which equals fiscal 1996 actual expenditures for this contract, would then be appropriate for each year of the biennium.**

The Personnel Bureau is requesting temporary contracted staff (costing $17,000 for each year of the biennium) to assist technical staff. Prior fiscal 1996 expenses to have this work performed were in personal services. The fiscal note for SB 345 stated that 25 FTE were to be eliminated in the new department (i.e. PHHS) as a result of the anticipated duplications stemming from the reorganization. One grade 17 personnel officer was identified as an FTE deleted due to the efficiencies of reorganization, with a resulting cost savings of $49,278 per year. This present law increase will partially offset these savings in personal services with increases in

contracted services in the Personnel Bureau.

The requested changes in contracted services for the university contract, safety program, public relations boards, and the Personnel Bureau are cost allocated to most fund sources in PHHS and result in a funding mix of 36 percent general fund, 10 percent state special revenue, and 54 federal funds. Requested increases in the TDD Program are funded totally from state special revenues from a tax on all telephone service connections. The MHCAC was funded with 35.6 percent general fund, 11.3 percent state special revenue, and 53.1 percent federal funds.

5) Reorganization Reductions - The department identified $35,368 each year of the biennium in one-time cost reductions associated with the reorganization.

LFD Comment **- The fiscal note for SB 345 states that all costs of reorganization were to be paid for from fiscal 1996 vacancy savings in personal services. Due to the allocation of this division's costs to most fund sources in PHHS, the resulting cost allocation was 36 percent general fund, 10 percent state special revenues, and 54 percent federal funds.**

Other Base Adjustments - Numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

LFD Issue **- The increases of $13,896 is fiscal 1998 and $16,562 in fiscal 1999 are partially comprised of an increase of $9,751 in fiscal 1998 and $9,751 in fiscal 1999 for funding for the Governor's Council on Families. The $9,751 includes funds for non-employee travel of $9,127 and non-employee in-state lodging of $624 for the 17 council members who will travel to council meetings once each quarter. This council was created by Executive Order No. 15-96 on June 25, 1996 (fiscal 1996), and has never been reviewed or approved by the legislature. There were no expenditures in fiscal 1996. This increase should be considered as a new proposal.**

In addition, an executive new proposal to fund this council is presented in PHHS's Operations and Technology Division's budget. A total of $30,000 is requested for each year of the biennium. Evaluation of the discrepancy between requested funding levels ($9,751 versus $30,000) may also be warranted.

6901 04
Department of Public Health & Human Services — **Director's Office**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999		
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Legal Staff		22,023	39,238	61,261		22,023	39,238	61,261
02 Mhcac Restructuring And Fte	1.50	34,823	62,042	96,865	2.00	40,375	71,934	112,309
03 Network		105,732	105,732	211,464		105,732	105,732	211,464
Total For New Proposals	1.50	$162,578	$207,012	$369,590	2.00	$168,130	$216,904	$385,034

Executive New Proposals

1) Legal Staff - The Executive Budget adds $61,261 each year of the biennium for contracted legal staff to support the increased volume of contracts and Administrative Rules of Montana changes, expanded workload in legal counsel and advice,

and clerical support in the department's Legal Office.

LFD Issue **- This request is more appropriately described as a present law adjustment based on the justification given of increased workload. It would be funded, based on the division's cost allocation method, by 36 percent general fund, 11 percent state special revenues, and 53 percent federal funds.**

2) MHCAC Restructuring and FTE - The Executive Budget requests $96,865 and 1.50 FTE in fiscal 1998 and $112,309 and 2.00 FTE in fiscal 1999 to create a permanent public health and human services committee to replace the current Montana Health Care Advisory Council and Public Health Improvement Task Force, both of which sunset during the 1997 biennium. The administration is proposing a public/private committee which will make policy recommendations for health reform and public health improvement activities.

LFD Comment **- The fiscal notes for HB 511 and HB 542 indicated that the 1995 legislature appropriated a total of $188,245 for fiscal 1996 and $184,364 for fiscal 1997 to PHHS for purposes of funding the MHCAC and the Montana Public Health Improvement Task Force. One FTE for each year of the biennium was also appropriated. Funding support was 87 percent general fund. Total fiscal 1996 expenditures equaled $131,659 for the MHCAC and $48,212 (for a total of $179,871) for the task force. Thus, this new proposal reflects a proposed reduction in the total appropriated funding for the tasks conducted by these two entities compared to the 1997 biennium appropriations, and an increase of 0.5 FTE in fiscal 1998 and 1.0 FTE in fiscal 1999.**

Formation of this new, restructured council is contingent on passage of a bill that (according to agency officials at the time of this analysis) is being recommended by the MHCAC. PHHS officials state that the purpose of this restructured council will be to assess the status of health programs at the various levels of government (i.e. strengths and weaknesses), address devolution of service delivery to the local level, evaluate cost effectiveness, and identify areas where service can be improved.

This new proposal is funded with 36 percent general fund, 11 percent state special revenues, and 53 percent federal special revenues (based on the indirect cost allocation of this division's costs to most fund sources in PHHS). The new proposal includes $18,000 for each year of the biennium for travel expenses for committee members, and $25,000 for consulting services.

3) Health Care Information Network - The department adds $211,464 each year of the biennium for the state to develop a Montana Health Information Network. This network will link numerous existing data bases and data sources to provide information on health reform issues, increase access to health services, promote cost containment, and maintain quality health care.

LFD Issue **- The fiscal note for HB 511 indicated that the estimated cost of design and development of this data base on health care resources would be $250,000 in fiscal 1996. This amount was expended (or accrued to be expended) in fiscal 1996. It was funded with $150,000 of general fund, and $100,000 of federal funds. Per 50-4-502, MCA, the purpose of the data base is to assist in developing and monitoring the progress of incremental health care reform measures that increase access to health care services, promote cost containment, and maintain quality of care. The MHCAC submitted a report to the Governor and the legislature on October 1, 1996 regarding the actions needed to establish the data base, including the estimate of the fiscal impact on state and local government, health care providers, health insurers, health care facilities, and private entities. The legislature may wish to review the MHCAC's recommendations before making their determination. A summary of the report's content and additional information submitted to the executive follows.**

The MHCAC's report proposes that the network function as a central hub that has access to the many health care data sources through voluntary agreements. It is proposed to be structured as a private, non-profit corporation, receiving contractual payments from PHHS. A Board of Directors (comprised of consumers, providers, payers, governmental officials, legislators, and representatives of other health care groups) would be responsible for properly operating the network. Users of the information are projected to include consumers, the legislature, governmental agencies, and providers. Background information submitted in the executive budgeting process indicates that $172,910 of the requested $211,464 per year would be expended on personal services costs for an executive director, health policy analyst, data specialist, and administrative support.

The network is expected to minimize its need for state authorized funds once it becomes self-supporting through the collection of revenues for services it provides (primarily report generation). A long-term funding plan includes the development of grant and contract proposals with the purpose of allowing the information network to help offset its operational cost. Projections for date of achieved self-sufficiency from the general fund were not provided. The legislature may wish to inquire of the MHCAC:

1) when fee and grant generation is anticipated to replace general fund;

2) to what extent general fund is projected to be replaced;

3) the status of the actual data base linkages; and

4) when current data base linkages are projected to be complete (if they are not already established).

The funding for this new proposal is 50 percent general fund and 50 percent federal funds. All of the expenditures are designated to be spent on contracted services (i.e. to the private, non-profit entity described above).

Program Issue

<u>Grade Change Analysis</u>

The Department of Administration's grade change analysis for fiscal 1996 revealed that eight percent (or 41 out of a total of 512) of the position upgrades at PHHS were attributable to reorganization induced changes in duties. Six percent of departmental position downgrades (or 4 out of a total of 66) were due to reorganization induced changes in duties. Examples of reorganization induced changes in duties that are factors in determining position upgrades (and downgrades) are: 1) number of employees supervised; 2) complexity; and 3) scope and effect of actions and decisions.

Using fiscal 1996 as a base, the net annual cost of these reorganization induced changes in employee compensation equals $198,000 (exclusive of benefit changes). The full fiscal impact of these upgrades will not be incurred until the close of fiscal 1997, but are included in the 1999 biennium Executive Budget.

6901 05
Department of Public Health & Human Services — **Child Support Enforcement Division**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	168.75	(1.00)	0.00	167.75	(1.00)	0.00	167.75	167.75
Personal Services	5,371,664	(66,379)	0	5,305,285	(53,539)	0	5,318,125	10,623,410
Operating Expenses	3,064,314	1,082,500	0	4,146,814	1,068,535	0	4,132,849	8,279,663
Equipment	378,475	(313,914)	0	64,561	(314,364)	0	64,111	128,672
Total Costs	$8,814,453	$702,207	$0	$9,516,660	$700,632	$0	$9,515,085	$19,031,745
General Fund	484,194	(484,194)	0	0	(484,194)	0	0	0
State/Other Special	2,464,557	736,719	0	3,201,276	735,634	0	3,200,191	6,401,468
Federal Special	5,865,702	449,682	0	6,315,384	449,192	0	6,314,894	12,630,278
Total Funds	$8,814,453	$702,207	$0	$9,516,660	$700,632	$0	$9,515,085	$19,031,745

Program Description

The purpose of the Child Support Enforcement Division (CSED) is to pursue and obtain financial support for children by establishing, enforcing, and increasing public awareness of parental obligations. CSED is responsible for establishing, enforcing, and collecting financial support owed by obligated parents. Program staff locate absent parents, identify assets, establish paternity, and ensure that obligated parents maintain medical health insurance coverage for their dependent children. The program collects child support payments for families receiving AFDC (or FAIM) cash assistance and those not receiving AFDC (or FAIM) cash assistance (non-AFDC). The program provides its services to applicants regardless of income level.

For a discussion of federal welfare reform's new requirements for this program, see the analysis entitled, "Welfare Reform's Revisions of CSED Requirements," in the Program Issues section for this division.

Activities carried out by program staff are authorized in Title 40, Chapter 5, part 2, MCA, and are mandated by the federal government in accordance with Title IV-D of the 1988 Social Security Act, and 45 CFR, Chapter 3.

Funding

The CSED's operations are funded with 34 percent state special revenues and 66 percent federal funds. (The program received 5.5 percent of its funding from the general fund in fiscal 1996). State special revenues are generated through three avenues: 1) program retention of 30.6 percent of the child support collections received in AFDC cases; 2) federal incentive payments equaling 6 percent of AFDC collections; and 3) federal incentive payments equaling 6.9 percent of non-AFDC collections. Incentives are earned based on a benefit-cost ratio of collections to costs. The non-AFDC incentive rate is limited to 115 percent of the incentive received for AFDC collections.

The program receives 66 percent of its funding from federal Child Support IV-D grants. (The paternity testing function is funded at a higher federal cost share match of 90 percent, with state special revenues providing the remaining 10 percent.)

6901 05
Department of Public Health & Human Services **Child Support Enforcement Division**
Performance Based Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	167.75	0.00	167.75	167.75	0.00	167.75	167.75
Performance Based	8,814,453	702,207	0	9,516,660	700,632	0	9,515,085	19,031,745
Total Costs	$8,814,453	$702,207	$0	$9,516,660	$700,632	$0	$9,515,085	$19,031,745
General Fund	484,194	(484,194)	0	0	(484,194)	0	0	0
State/Other Special	2,464,557	736,719	0	3,201,276	735,634	0	3,200,191	6,401,468
Federal Special	5,865,702	449,682	0	6,315,384	449,192	0	6,314,894	12,630,278
Total Funds	$8,814,453	$702,207	$0	$9,516,660	$700,632	$0	$9,515,085	$19,031,745

Performance-Based Budget

The Child Support Enforcement Division is one of 16 state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the Child Support Enforcement Division is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

Goal 1: To establish paternity for 90 percent of Title IV-D cases.

Objective 1: To decrease the percentage of Title IV-D cases needing establishment of paternity by achieving the targets each year.

Performance Measure: The number of Title IV-D cases for whom paternity is established by CSED.

	FY96	FY97	FY98	FY99
Number of CSED Established Paternity	4,335	4,000	4,000	4,000

Performance Measure: The number of Title IV-D cases for whom paternity is established through voluntary hospital paternity acknowledgment.

	FY96	FY97	FY98	FY99
Number of Voluntary Hospital Paternity Acknowledgments	1,698 (est.)	1,700	1,700	1,700

Explanation: In order to establish support orders for children, the department must have paternity established. A voluntary program for hospital paternity acknowledgment was implemented during the 1997 biennium, and is a more effective and efficient means of establishing paternity.

Goal 2: To establish financial and medical support orders for 75 percent of Title IV-D cases.

Objective 1: To decrease the percentage of Title IV-D cases needing orders for financial support by achieving the targets each year.

Performance Measure: The number of orders established for financial support and medical support.

	FY96	FY97	FY98	FY99
Number of CSED Established Financial Support Orders	2,376	2,400	2,400	2,400

Explanation: A major component of self-sufficiency for families with absent parents is the financial and medical support for children. A key provision of the FAIM welfare reform effort is enhanced child support enforcement, resulting in less dependence on public assistance.

Goal 3: To collect financial and medical support from both parents for 45 percent of Title IV-D cases.

Objective 1: To increase the percentage of Title IV-D cases with collections by meeting the target each year.

Performance Measure: The number of orders to withhold.

	FY96	FY97	FY98	FY99
Number of CSED Orders to Withhold	14,386	14,400	14,400	14,400

Performance Measure: The number of paying cases.

	FY96	FY97	FY98	FY99
Number of Paying Cases	12,288	13,929	15,660	17,400

Performance Measure: Total dollars collected.

	FY96	FY97	FY98	FY99
Total Dollars Collected	$33.6M	$38.4M	$43.2M	$48.0M

Explanation: A major component of self-sufficiency for families with absent parents is the financial and medical support for children. A key provision of the FAIM welfare reform effort is enhanced child support enforcement, resulting in less dependence on public assistance. Funding for the FAIM program is provided in part by collections for Title IV-D cases.

which is used to offset public assistance funds.

Objective 2: To increase the percentage of Title IV-D cases where health insurance coverage is obtained after being ordered.

Performance Measure: The number of cases for whom health insurance coverage is obtained.

	FY96	FY97	FY98	FY99
Number of Cases with Health Insurance Coverage	2,969	2,970	2,971	2,972

Explanation: A major component of self-sufficiency for families with absent parents is medical support for children. In order to reduce the dependence on publicly funded health care, the number of parents obtaining and providing health insurance coverage for children must be increased.

Goal 4: To decrease the time for updating support orders to three months from one year.

Objective 1: To ensure that support orders are up-to-date.

Performance Measure: The average amount of time for updating support orders.

	FY96	FY97	FY98	FY99
Average Time to Update Support Orders	12 mo.	12 mo.	3 mo.	3 mo.

Explanation: Federal regulations require Title IV-D cases to be reviewed and orders updated once every 36 months. This has resulted in a backlog of cases and an average amount of time to review and update support orders of approximately 12 months. The goal is to reduce the average amount of time to review and update support orders to three months.

Goal 5: To make the process more efficient and responsive.

Objective 1: To increase the cost/benefit ratio of dollars collected to administrative costs.

Performance Measure: Ratio of dollars collected to expenditures.

	FY96	FY97	FY98	FY99
Cost/Benefit Ratio	$3.68	$4.01	$4.02	$4.03

Explanation: Collections for child support are used to partially fund public assistance programs. In order to maintain the level of funding necessary for these programs, the cost of collecting child support funds must be as efficient and effective as possible.

***LFD Comment* - The division is indicating it can increase collections, and reduce support updating time. The goals and performance measures appear to address all of the major tasks for which the division is responsible.**

LFD Issue - The division states that several goals are to increase performance based on percentages by maintaining and/or improving certain absolute measures. These goals do not conform to the performance measures when caseloads remain stable or grow. The total number of cases have historically fluctuated in CSED, and are anticipated to grow under welfare reform. If the number of cases is used as a performance measure, and the total number of cases managed by the CSED program increases in a given year, the percentage of cases successfully acted upon could actually decrease while the total number of reported, completed cases remains the same. A percentage based performance measure would better reflect performance levels. For example, a 3 percent increase in the number of successfully established paternity cases, in fiscal 1998 compared to fiscal 1996, would be an accurate index regardless of the total number of new or existing paternity establishment cases managed by CSED in fiscal 1998. Use of set numbers infers that additional caseloads would require additional resources. Is this the case? If so, how much additional resources are required for each objective to maintain or achieve a desired percentage as caseload changes?

The legislature may wish to consider whether the most appropriate level has been selected for the 1999 biennium for the various performance measures. For example, three of the indicated performance measures for fiscal 1998 and fiscal 1999 are at approximately the same level as that achieved in fiscal 1996. The legislature may wish to ask the agency if there is any ability to improve performance in these areas.

The legislature may also wish to consider whether specific performance measures related to the mandated federal requirements of federal welfare reform are pertinent, such as establishment of a required database.

Executive Present Law

The executive did not provide independent justification for this increase, nor did the executive tie this increase to the performance measures.

6901 05 Department of Public Health & Human Services Child Support Enforcement Division		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	(66,379)	(53,539)
02	Inflation/Deflation	(2,342)	1,595
03	Fixed Costs	56,896	56,896
	Total Statewide Adjustments	($11,825)	$4,952
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$714,032	$695,680
	Grand Total Present Law Adjustments	$702,207	$700,632

1) Personal Services - The reduction in personal services is the result of the removal of 1.0 FTE, which was part of the department's required 25 FTE reductions for economies and efficiencies due to reorganization; a reduction in employee benefit costs; an increase in health insurance costs; and a reduction of $164,086 in fiscal 1998 and $164,479 in fiscal 1999 due to the executive's proposed 3 percent vacancy savings.

Other Base Adjustments - The increases of $714,032 in fiscal 1998 and $695,680 in fiscal 1999 are primarily due to requested increases in contracted services, including: 1) increased contracting of private hearings officers to manage increased review of support order modifications ($26,383 for each year of the biennium); 2) locate activities ($3,646 for each year); 3) data programming resources for the SEARCHS computer system ($126,027 for fiscal 1998 and $131,376 for fiscal 1999); 4) customer service in the telephone unit ($83,551 for each year); and 5) workload for the servers of legal process ($96,800).

LFD Issue - An additional increase of $548,111 in contracted services is also requested for each year of the biennium. The agency's request noted that these funds were requested to provide funding for additional staff. These additional resources are requested while several performance measures remain fairly flat. The division is asking for resources to update support orders, which is reflected in the performance measures. However, the executive does not tie the increase in collections to the requested increase in the budget. For a further discussion of the performance measures, please see that section.

Program Issues

Opportunity to Offset Anticipated Increases in Administrative Costs with Percentage Service Fees on Non-AFDC Child Support Collections

According to a report issued by the U.S. General Accounting Office (GAO), Montana (like many other states) is missing an opportunity to offset their administrative costs by not collecting a percentage service fee from non-AFDC child support collections. In fiscal 1996, Montana's CSED Program collected $23,416,000 in child support from noncustodial parents (NCP) whose children were not AFDC recipients (non-AFDC). The program collected $10,212,000 from NCP of children who were AFDC recipients.

While AFDC recipients relinquish 30.62 percent of the collections made on their behalf to pay for program administrative costs, non-AFDC recipients, regardless of their income levels, currently pay nothing for the services provided. (Recently enacted minor fees to help reimburse the program for such direct costs as blood tests are the exception, but are anticipated to recoup only $40,000 per year, which equals less than 0.2 percent of non-AFDC collections). In fiscal 1996, 56 percent of CSED cases were non-AFDC. Program officials predict that non-AFDC cases will increase to 63 percent of the total by fiscal 1999. GAO researchers discovered that only states that charge a percentage service fee upon all non-AFDC child support collections are able to recoup a significant portion (up to 14 percent) of their non-AFDC program administrative costs.

Background

In fiscal 1996, the CSED program's funding support consisted of 66.5 percent federal grant funds, 5.5 percent general fund, and 28 percent state special revenues. The state special revenues are derived from two primary sources:

1) incentive payments from the federal government as a percent of total collections from both AFDC and non-AFDC NCP (equals 6 percent of AFDC collections and 6.9 percent of non-AFDC collections); and

2) the 30.62 percent of child support collections from NCP of families receiving AFDC that are retained by the program for administrative purposes.

Using the percent of non-AFDC versus AFDC CSED cases as a means of assigning program administration costs results in an estimated $4.9 million of costs attributable to non-AFDC cases, and $3.9 million attributable to AFDC cases. However, the only funds received by the state for non-AFDC collections are the federal incentive payments mentioned above, which totaled $700,000, or 14 percent of estimated program costs in fiscal 1996. Conversely, the state collected about $1.8 million, or about 45 percent of estimated program costs, from retentions of child support collections from AFDC cases and their associated federal incentive payments.

A national study indicates that about 50 percent of non-AFDC recipients of CSED governmental services have family incomes greater than 150 percent of the poverty threshold ($15,756 for a single parent with one child in 1995). Income figures particular to Montana's CSED Program were not available. No income standard is applied when determining whether state CSED services will be provided. Anyone, regardless of their income, can ask for and receive these services. Federal mandates require that the state provide this service.

Welfare Reform

Recent federal mandates to increase child support enforcement efforts under welfare reform will require a significant increase in funding for the CSED program. Although not included in the Executive Budget at the time of preparation of this analysis, it is anticipated that executive new proposals will be introduced during the 1997 legislative session to address welfare reform. (For a related discussion, see the section entitled "Welfare Reform's Revisions of CSED Requirements"). New federal requirements are anticipated to increase the number of non-AFDC cases. Conversely, program officials predict that the number of AFDC cases will decrease by 21 percent in fiscal 1999 compared to fiscal 1996. An example of a new federal mandate requiring increased expenditures is the establishment of a new statewide registry of all child support orders in the state. Currently only AFDC recipients and requested assistance cases are on file. A new centralized registry of all newly hired employees is also required under welfare reform. A preliminary PHHS cost estimate for development of this new hire data base during the 1999 biennium equals $2 million, of which $680,000 would be from the general fund.

An official of the American Public Welfare Association indicated that federal welfare reform regulations continue to permit states to charge a percentage service fee upon non-AFDC collections.

Other States

GAO researchers found that only four states (Arkansas, New Mexico, Ohio, and Michigan) recovered a significant percentage of their non-AFDC CSED administrative costs. These states accomplished this by charging a percentage service fee upon all non-AFDC child support collections. Using the discretion available to them, these states have adopted fee systems that are based on the policy of charging non-AFDC applicants for the actual costs of providing CSED services by deducting the accumulated fees from monthly child support collections. The net amount is sent to the custodial parent. The percentage service fees charged, and percent of program costs recovered by these states are summarized below.

> Arkansas - withholds a maximum of 13 percent of the collection and recovered 14 percent of its non-AFDC administrative costs;
>
> New Mexico - withholds 10 percent of the collection and recovered about 13 percent of its non-AFDC administrative costs;
>
> Ohio - withholds 2 percent of the collections and recovered 48 percent of costs;
>
> Michigan - charges the NCP a flat rate of $2 per month and recovered 26 percent of costs.

The GAO concluded that:

1) a 15 percent of collection service fee is sufficient to recover 100 percent of the costs of service provided to the average non-AFDC CSED service recipient (based on a national average);

2) a percentage service fee structure is easier to administer and more successful in cost recovery; and

3) the federal government should mandate that states charge a percentage service fee.

Options

Table 12 presents estimated revenues at various percentage service fee levels for Montana's CSED Program. Estimated revenues based on the application of an income level means test (that assumes that 50 percent of non-AFDC collections are from those with family incomes greater than 150 percent of the poverty threshold) are also presented. Hence, only 50 percent of the non-AFDC (or FAIM) estimated 1999 biennium collections of $62,832,000 are assessed the percentage service fee under the means test. Estimates also reflect return of 66 percent of the generated revenue to the federal government, based upon their cost sharing support of the state's CSED Program.

Table 12
Projected Revenue Generation
From Percentage Service Fees
1999 Biennium

Service Fee Percent of Collection	Projected Revenue Means Tested Non-AFDC	All Non-AFDC
2	$214,000	$428,000
8	855,000	1,710,000
10	1,068,000	2,136,000
15	1,602,000	3,204,000

Estimates of increased administrative costs to collect the percentage service fee are not included. CSED Program officials indicate that the existing computerized data collection and payment system could accommodate the implementation of a percentage of collections service fee system without significant modifications. Based upon an average monthly child support collection of about $220, a 10 percent service fee would result in a $22 fee being subtracted from the monthly child support collection. Should the legislature wish to pursue this issue, a bill will be required to make the necessary statutory changes. Options available to the legislature include:

1) adopt the concept of collection of a percentage service fee from child support collections from noncustodial parents of non-AFDC cases, and authorize a committee bill to make the necessary statutory changes;

2) if Option Number One is chosen, adopt a percentage service fee rate (i.e. 2, 8, 10, 12, 15). If this option is chosen, the legislature should direct usages of the funds, such as:

a) assignment to a state special revenue account for program administrative costs; and

b) usage of the funds to pay for specified computer upgrades necessitated by welfare reform;

3) take no action.

Low Referral Rate for Child Support Collections from Parents of Children in Foster Care

The state is attempting to recoup part of the incurred expenses for children under protective care by collecting child support from their parents. Such child support collections are used to offset costs incurred in the Child and Family Services Division (CFS). The average number of children in foster care in Montana during fiscal 1994 and 1995 equaled 2,864. (Due to difficulties with the merging of computer systems, PHHS officials in CFS could not provide fiscal 1996 caseload numbers at the time of preparation of this report.) The CSED reports that they managed child support collections for 1,771 foster care children in fiscal 1996.

Consequently, only 62 percent of foster care cases have been referred to CSED for child support enforcement. Thus, an opportunity to collect up to a maximum of $2.9 million in child support each year to offset state foster care expenses is being foregone. Based on historical collection rates, about 25 percent of this potential $2.9 million ($700,000) of additional child support collections could feasibly be collected. Estimates are based on Montana's average child support payment of $220 per month.

Currently, CSED is not collecting any child support collections for youth in protective care because they determined during the 1997 biennium that they lacked the appropriate legal authority to issue administrative orders necessary for collections. Officials of CSED (and CFS) are taking corrective actions by proposing a bill for legislative consideration that will correct the reported difficulties in CSED's legal authority to write administrative orders directing child support payments in foster care cases. If approved, these statutory changes should both enhance revenue collections and encourage referrals.

In addition, the roadblocks to improved referrals and collections from the level experienced in fiscal 1996 are multiple due to program and legal complexities. However, contributing factors were identified through interviews with PHHS staff attorneys and administrators in both divisions, as well as county staff. In order to effect a greater rate, the following issues need to be addressed:

1) difficulties in coordination between district courts and PHHS;

2) difficulties in coordination between CSED and CFS Division;

3) difficulties in adequately tracking cases within the CFS Division due to the CAPS computer system experiencing difficulties merging data from historical systems; and

4) lack of a vested financial interest in cost recovery, aggravated by limited time and resources, and competing demands at district courts and CSED.

Options

1) Passage of statutory changes to provide clearer legal authority for CSED administrative orders in foster care cases;

2) Adoption of the concept of collection of a percentage service fee upon child support collections in non-AFDC foster care cases (see discussion in section entitled "Opportunity to Offset Anticipated Increases in Administrative Costs with Percentage Service Fees on non-AFDC Child Support Collections"). Such fees will increase the program's financial interest in this category of collections,

as well as support expanding services;

3) Ask officials of CSED and CFS how coordination between PHHS and district courts can be enhanced, and why coordination between these two divisions is such that it impedes collections; and/or

4) Ask CSED and CSF officials to what degree the required computerized data bases and mandated reporting under welfare reform will improve referral rates and collections from foster care cases (for further discussion of welfare reform, see that issue under "Program Issues").

Commitments Made to 1995 Legislature

As part of its welfare reform (FAIM) proposal for the 1997 biennium, the department pledged to increase AFDC child support collections by $3.6 million per year. A comparison of fiscal 1995 AFDC collections to those of fiscal 1996 revealed that an additional $1.5 million of collections were achieved. Thus, only 42 percent of the pledged increase in collections was achieved. The legislature may wish to inquire into the reasons for this shortfall.

The department staff also testified that $600,000 of CSED revenue would be deposited to the general fund over the 1997 biennium. As of the writing of this report, it was unclear whether this objective will be accomplished. The legislature may wish to ask for an update during the legislative session.

Welfare Reform's Revisions of Child Support Enforcement Requirements

Summary of Federal Mandates

The federal welfare reform bill contains sweeping revisions of child support enforcement (CSE) statutes, and mandates that states establish new centralized data bases to enhance and speed collections. Major provisions anticipated to require statutory changes and additional state funding support during the 1999 biennium include the following:

* establishment of a state registry of ALL child support orders (with associated payment records and liens) entered in the state. Currently, the only child support orders maintained in CSED's computerized data base are: 1) those voluntarily provided by custodial parents requesting services, and 2) for families receiving public assistance (AFDC). This registry will have to be accessible to the CSE agencies of other states; and would probably be linked with the central registry of new hires, described below, to quickly process automatic income withholding orders.

* establishment of a central registry of new hire information. States are required to implement laws regarding the reporting of newly hired employees. Employers are required to report information regarding newly hired employees to the state within 20 days. The information will have to be maintained in a new computer data base that is available for a national central registry of new hires. The information will facilitate income withholding from noncustodial parents.

* the CSED will be required to initiate automatic income withholding in ALL cases, and will have to provide location services in the event the child support obligor under an automatic income

withholding case changes employment. States will be required to make this a speedy process, to comply with the federal broadened definition of income, and to subject Montana employers to the withholding orders of other states.

* states must provide services to locate individuals for purposes involving custody and visitation. In the past, this service was limited to locate services for the purposes of child support enforcement issues.

* states are required to collect social security numbers from individuals applying for professional, commercial, drivers, and marriage licenses; and from death certificates.

* states are required to enact laws requiring businesses and employers, such as public utilities, to respond to state CSE agencies' requests for information. State data bases must be accessible to other states' CSE agencies.

* state CSE agencies are required to match data bases of delinquent parents against customer records of financial institutions, such as banks and credit unions.

* states will have to make statutory changes to allow tribunals setting support obligations to impose work orders as a condition for obligated parents who are unemployed or underemployed.

* states must expand license suspension provisions for support delinquencies to include recreational licenses.

* states may choose to require automatic referral of food stamp cases for child support enforcement.

* the law changes how collections are applied against past arrearage, which impacts state special revenue collections.

* the law repeals federal indirect financial support of the first $50 of a monthly child support collection that had been 'passed-through' to a family receiving public assistance.

Anticipated Requests for Statutory Changes

The preceding federal welfare reform changes are anticipated to necessitate bills for statutory changes during the 1997 legislative session in the following areas:

* establishment of the state wide registry of child support orders
* establishment of the new hire data base, and employer reporting requirements
* income withholding changes, in particular subjecting Montana employers to the withholding orders of other states
* locate service
* collection of social security numbers
* requirements upon businesses and employers to respond to CSE requests for information
* minor paternity changes
* cooperation issues with AFDC recipients

* minor modification of support orders changes
* requirements upon financial institutions regarding customer records
* work orders
* license suspension procedures
* minor changes in medical support provisions
* referral of food stamp cases for child support enforcement (optional for states)

Lack of Fiscal and Caseload Impact Information

The Executive Budget for CSED did not include any new proposals that address these federal welfare reform requirements. It is anticipated that several new proposals and associated statutory changes will be initiated during the 1999 legislative session by PHHS.

A summary of major anticipated impacts follows:

* increased funding support required, a percentage of which will probably be general fund
* an increase in the number of non-AFDC cases
* a decrease in the number of AFDC cases
* extensive computer enhancements related to state-wide registry of all child support orders in the state
* extensive computer enhancements related to centralized registry of all newly hired employees in the state; preliminary CSE estimates equaled $2 million for the 1999 biennium, of which $680,000 was general fund.

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	110.97	1.50	4.50	116.97	1.50	6.00	118.47	116.97
Personal Services	4,019,753	294,064	156,579	4,470,396	301,633	208,774	4,530,160	9,000,556
Operating Expenses	8,724,949	2,171,963	2,435,990	13,332,902	2,669,708	2,237,730	13,632,387	26,965,289
Equipment	176,310	(67,015)	7,500	116,795	(67,015)	0	109,295	226,090
Grants	5,123,295	1,132,268	0	6,255,563	1,252,465	0	6,375,760	12,631,323
Benefits and Claims	196,014,955	24,812,665	2,741,080	223,568,700	36,200,836	5,669,339	237,885,130	461,453,830
Transfers	0	0	0	0	0	0	0	0
Total Costs	$214,059,262	$28,343,945	$5,341,149	$247,744,356	$40,357,627	$8,115,843	$262,532,732	$510,277,088
General Fund	47,671,392	5,954,892	1,198,842	54,825,126	6,972,723	1,941,690	56,585,804	111,410,931
State/Other Special	9,363,002	(84,960)	0	9,278,042	280,430	18,620	9,662,052	18,940,094
Federal Special	157,024,868	22,474,013	4,142,307	183,641,188	33,104,474	6,155,533	196,284,876	379,926,063
Total Funds	$214,059,262	$28,343,945	$5,341,149	$247,744,356	$40,357,627	$8,115,843	$262,532,732	$510,277,088

Program Description

The Health Policy and Services Division plans and implements statewide health policy. It provides a wide range of preventive, primary, acute care, and public health services to the public. Services are provided through private and public providers. The division administers the acute and primary care components of the Medicaid Program. Public health is administered at the state and county level through public health agencies, pursuant to statutory authority in Title 50, MCA.

The Medicaid Program is a voluntary state/federal partnership to provide and finance medical services to the aged, blind, disabled, or poor. The Medicaid Services Bureau operates 38 Medicaid medical programs through more than 8,000 providers. To be eligible for Medicaid, an individual must meet income and resource guidelines and be included in a family with dependent children or be determined by SSI to be elderly or disabled. The Medicaid Program served more than 41,000 children and 50,000 adults in 1994. Statutory authority for the program is provided in Title 53, Chapter 6, MCA and Title XIX of the Social Security Act (42 USC. 1396, et seq.).

The Medicaid Services Bureau develops and implements fully integrated managed care programs. Passport is the primary care case management program and includes approximately 70 percent of all Medicaid recipients. An HMO option for physical health services (begun in November 1995) includes three private HMOs that deliver services under a fully-capitated model to 794 enrolled recipients (as of October 1996). The number of HMO enrollees is growing at a rate of 100 to 200 per month.

The Financial, Operations, and Support Services Bureau manages the acute and primary care components of the Medicaid program and the public health program budget, which includes the Health Prevention and Services Block Grant (HPSBG), and the Maternal and Child Health Block Grant (MCHBG). In addition, the bureau manages: 1) the Montana Management Information System (MMIS), which processes all Medicaid medical claims for payment; 2) the Medicaid Hospital Program; 3) the Medicare Buy-In Program; 4) the Clinic Services Program; 5) the Indian Health Services payments; and 6) the Federally Qualified Health Centers program. The bureau also manages all computer systems for the division.

The Communicable Disease Control and Prevention Bureau is responsible for programs related to detection, control, and prevention of communicable diseases. This bureau consists of the following programs: 1) The Sexually Transmitted Disease (STD)/HIV Prevention and Sexual Assault Prevention program; 2) the Immunization Program; 3) the epidemiology (disease control) program; and 4) the Food and Consumer Safety Section, which works with local county health departments to ensure

that healthful conditions exist in public establishments.

The Family and Community Health Bureau administers health programs for women, children, and families and administers the Title V, MCHB; Title X, Family Planning; and the U.S. Department of Agriculture's Women, Infants, and Children (USDA - WIC) food program. The WIC program provides nutrition education and prescribed foods to eligible low-income pregnant and breast-feeding women, infants, and children. The family planning program provides preventive and reproductive health services to prevent sexually transmitted diseases, health problems, and unwanted or mistimed pregnancies. The special health services program identifies children (from birth to 18 years of age) who have special health care needs and provides medical services. The Perinatal and Infant Health program includes the Montana Initiative for Abatement of Mortality in Infants (MIAMI) Project, and improves pregnancy outcome among women and infants. The Pre-school and School Health program provides dental and other health related technical assistance to schools. The Childhood Lead Poisoning Prevention Project is administered by contract with Butte-Silver Bow County. The Community Development program provides technical assistance to county governments and administers the MCHBG.

The Health Systems Bureau establishes the state's public health policy and implements programs that promote the health of Montanans by controlling chronic diseases and injuries. The bureau analyzes health conditions and assists communities in setting health priorities, and promotes healthy behavior. The Chronic Disease Prevention and Health Promotion program addresses cancer, diabetes, and tobacco control; health education; nutrition; and chronic disease surveillance. The Emergency Health Services and Injury Prevention program is responsible for a statewide emergency medical services system. The Health Assessment and Resource Development program administers the Certificate of Need process, which evaluates and regulates the type and quality of health care services. The program's primary care office works to improve primary health care, especially in rural areas. The bureau also administers the HPSBG.

Funding

Overview

The Executive Budget includes a 15.7 percent increase (over a two-year period) in total funding for the Health Policy and Services Division from fiscal 1996 to 1998 and an additional 6.0 percent increase from fiscal 1998 to fiscal 1999. The division is funded with approximately 22 percent general fund, 4 percent state special revenues, and 74 percent federal funds in the 1999 biennium. Table 13 details the program's numerous funding sources.

Table 13
Division of Health Policy and Services
Funding Source Breakdown

Fund Source	Fiscal 96	Executive Budget Fiscal 98	Executive Budget Fiscal 99
General Fund	$47,671,392	$54,825,126	$56,585,805
State/Other Special Revenue (SSR)			
County Levy (Public Assistance)	$8,759,403	$8,427,613	$8,813,003
EMT Certification	33,927	43,927	43,927
DHES Food and Consumer	65,311	70,000	70,000
Baby Your Baby	77,859	100,000	100,000
Local Health Care	0	150,000	150,000
Food/Lodging License	426,502	466,502	466,502
SSR - Undesignated	0	20,000	18,620
Subtotal	$9,363,002	$9,278,042	$9,662,052
Federal Funds			
EMS Data Injury	$0	$128,127	$128,127
PKU Disease	17,856	0	0
Family Planning - Title X	976,074	1,026,457	1,033,020
WIC	11,720,286	15,767,602	15,888,809
Health Prevention and Services	963,887	1,244,573	1,250,497
Maternal and Child Health	2,354,815	2,618,358	2,683,084
BRFSS - DOT Contract	5,000	5,000	5,000
Trauma Care and Planning	128,197	0	0
Tuberculosis Grant	98,726	119,878	120,308
Chronic Disease	29,582	62,000	65,000
Diabetes Control	170,901	257,798	272,406
Primary Care Services	197,079	218,907	219,026
Ryan White Act, Title II	103,476	129,047	129,009
MCH Data Utilization Grant	40,000	0	0
EMS - Highway Traffic Safety	67,166	100,000	100,000
MT Lead Poisoning Prevention	300,000	265,000	265,000
Home Visiting	5,896	0	0
School Health Model	9,927	0	0
Food Inspection Program	30,224	37,500	37,500
Nutrition Intervention	12,892	0	0
Medicaid Administration 50%	2,190,090	2,593,760	2,434,918
Medicaid Benefits 100%	10,984,643	16,638,143	16,638,143
Medicaid Benefits FMAP	123,135,100	137,694,172	149,728,730
Medicaid Benefits 90%	1,072,276	0	0
Tobacco Control	233,063	297,050	307,045
Seroprevalence/Surveillance	66,125	99,143	99,113
Vaccination Program	980,616	1,082,530	1,082,538
STD Program	225,007	251,977	255,870
Aid Federal Category	620,980	1,106,861	1,156,935
Breast and Cervical Cancer	284,984	1,507,393	2,006,868
Federal Funds - Unspecified	0	389,912	377,930
Subtotal	$157,024,868	$183,641,188	$196,284,876
Total	$214,059,262	$247,744,356	$262,532,733

General fund is used to match federal Medicaid benefits, partially support administrative costs, and fund portions of certain public health programs. General fund is proposed to increase $16.1 million in the 1999 biennium. Of that, $13.56 million is due to present law adjustments and new proposals relating to Medicaid benefit payments, and the remainder is due to adjustments or new proposals relating to administrative functions and public health programs.

State special revenues, listed in Table 13 include funds generated from licensing fees for food and lodging facilities, and emergency medical technicians (EMT) certifications. Baby-Your-Baby revenues are from contractual Medicaid funds and private donations. State special revenues also include property tax revenue from the 12 state-assumed counties. County funds supply part of the state match for primary care Medicaid benefits.

Federal funds include the Maternal and Child Health Block Grant (MCHBG) and the Health Prevention and Services Block Grant (HPSBG). The MCHBG provides funding for programs for family, community, children, and perinatal health concerns, including financial support to county public health programs ($819,101 for each year of the 1999 biennium), the MIAMI/perinatal program, Childrens' Special Health Services, family planning, and administrative duties. Table 14 presents fiscal 1996 actual expenditures, fiscal 1997 legislative appropriations, and the Executive Budget allocation of the MCHBG in the 1999 biennium.

Table 14
Maternal and Child Health
Block Grant Expenditures

			Executive Budget	
	1996 Actual Expenditures	1997 Appropriated	1998 Proposed	1999 Proposed
Health Policy and Services Division				
Division Administration (Cost Allocated)			$46,799	$46,421
Health Systems Bureau Admin.	32,766	30,059	26,783	26,897
Health Planning			49,622	49,504
Medical Advisor Unit	9,407	22,981		
Family & Community Health Bureau Admin.*	1,217,054	1,194,127	1,284,468	1,285,402
Family Planning	29,080	29,239	28,951	28,969
MIAMI/Perinatal	129,170	189,745	127,300	175,805
Children's Special Health Services	937,338	891,699	1,020,443	1,031,595
School Health Coordinator New Proposal			33,992	38,491
Operations and Technology Division				
Vital Statistics	$1,391			
Total Expenditures	$2,356,206	$2,357,850	$2,618,358	$2,683,084

*Includes county public health support

The HPSBG provides funding for emergency medical services, chronic and communicable disease prevention, family planning, community health issues, and administrative duties. Table 15 presents 1996 expenditures, 1997 appropriations, and the Executive Budget allocation of the HPSBG for the 1999 biennium.

Table 15
Health Prevention and Services
Block Grant Expenditures

	1996 Actual Expenditures	1997 Appropriated	Executive Budget 1998 Proposed	Executive Budget 1999 Proposed
Health Policy & Services Division				
Division Administration			$46,760	$46,421
Health Systems Bureau Administration	123,723	39,468	97,632	97,609
Health Planning			49,622	49,504
Medical Advisor Unit	61,284	80,628	84,954	85,084
Emergency Medical Services	223,974	224,568	195,994	199,568
Chronic Disease	175,232	217,391	242,597	245,446
Family and Community Health Bureau Admin.	45,908	**116,846	45,908	45,908
Family Planning	205,567	205,567	204,797	204,802
Communicable Disease Control Bureau Admin.	91,761	*60,161	117,840	117,718
Aids Prevention Grant	9,423		14,952	14,948
Tuberculosis	5,664		29,764	29,739
Sexual Assault	21,351	24,000	21,351	21,351
Rape Prevention and Education New Proposal			92,400	92,400
Operations and Technology Division				
Vital Statistics	$1,391			
Total Expenditures	$965,278	$968,629	$1,244,573	$1,250,497

*Appropriated to Communicable Disease Program (prior to reorganization)
**Appropriated to Preventive Health Bureau Admin. (prior to reorganization)

Federal categorical grants, which fund designated programs within the division, include Title X Family Planning, Vaccination, AIDS, Breast and Cervical Cancer, Tobacco Control, Diabetes Control, Tuberculosis, emergency medical services, Montana Lead Poisoning Prevention, and Sexually Transmitted Disease Prevention.

Funding by Function

Table 16 below presents the Executive Budget in program functions rather than expenditure object. The Division Administration function includes management and support staff that serve all division functions. The Medicaid function includes the administration of the Medicaid Services Bureau as well as Medicaid benefits. The remaining functions include those programs aptly described in the program description section of this budget narrative.

The Medicaid function increases 13.1 percent (over a two-year period) in fiscal 1998 from fiscal 1996 and an additional 6.5 percent in fiscal 1999 from fiscal 1998, due primarily to projected caseload increases in Medicaid services and requested provider rate increases.

The Health Systems function receives the largest percentage increase in this division's budget due to significant increases in federal categorical grants, including chronic disease, diabetes control, tobacco control, breast & cervical cancer, and emergency medical services.

The Family and Community Health function also receives a significant increase from base year expenditures. The major factors contributing to the increase include: 1) a present law adjustment for nutrition benefits in the Women, Infant, and Children program; 2) a new proposal to expand Medicaid reimbursement for special medical services provided at the local level; and 3) a new proposal to increase funds for teenage pregnancy prevention programs.

The Communicable Disease and Prevention function is budgeted in the Executive Budget to increase 30.9 percent from fiscal 1996 to fiscal 1998 due primarily to: 1) increased federal prevention grants for HIV, tuberculosis, and sexually transmitted diseases; and 2) increased federal funds for immunizations.

The Division Administration function receives a decrease in fiscal 1998 from fiscal 1996 due to one-time fiscal 1996 expenditures not continuing into the 1999 biennium.

Table 16
Health Policy & Services Division

Function	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Percent Change FY96-98	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Percent Change FY98-99
Medicaid	$191,371,834	$22,500,679	$2,491,830	$216,364,343	13.06%	$33,746,785	$5,245,089	$230,363,708	6.47%
Health Systems	2,462,088	297,425	1,378,039	4,137,552	68.05%	831,411	1,384,677	4,678,176	13.07%
Family & Community Health	16,680,396	4,725,367	1,048,880	22,454,643	34.62%	4,906,752	1,063,677	22,650,825	0.87%
Communicable Disease & Prevention	3,138,014	845,686	122,400	4,106,100	30.85%	900,972	122,400	4,161,386	1.35%
Division Admin.	406,930	(25,212)	300,000	681,718	67.53%	(28,293)	300,000	678,637	-0.45%
Total	$214,059,262	$28,343,945	$5,341,149	$247,744,356	15.74%	$40,357,627	$8,115,843	$262,532,732	5.97%
Funding									
General Fund	$47,671,392	$5,954,893	$1,198,842	$54,825,127	15.01%	$6,972,724	$1,941,690	$56,585,806	3.21%
State Special Revenue	9,363,002	(84,960)	0	9,278,042	-0.91%	280,430	18,620	9,662,052	4.14%
Federal Special Revenue	157,024,868	22,474,012	4,142,307	183,641,187	16.95%	33,104,473	6,155,533	196,284,874	6.88%
Total	$214,059,262	$28,343,945	$5,341,149	$247,744,356	15.74%	$40,357,627	$8,115,843	$262,532,732	5.97%

Benefit Funding

Table 17 below lists the total benefits contained in this division's proposed budget for the 1999 biennium. All benefits listed, except Nutrition Programs (WIC), are for medical services funded by federal Medicaid funds, matched as noted with state funds. Medicaid estimates are discussed in the "LFD Issues" section of the agency summary.

Table 17
Benefits included in Health Policy & Services Division
Executive Budget Recommendation--1999 Biennium

Benefit	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec Budget Fiscal 1998	Percent Change FY96-98	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Percent Change FY98-99
Primary Care	$168,124,821	$14,626,048	$2,087,580	$184,838,449	9.94%	$24,523,877	$5,015,839	$197,664,537	6.94%
Medicaid Elig. Educ. Costs	846,905	(67,484)	0	779,421	-7.97%	10,459	0	857,364	10.00%
Indian Health	10,984,643	5,000,000	0	15,984,643	45.52%	5,000,000	0	15,984,643	0.00%
Medicare Buy-In	7,919,085	2,332,419	0	10,251,504	29.45%	3,744,818	0	11,663,903	13.78%
TCM for Children at Risk	0	0	653,500	653,500		0	653,500	653,500	0.00%
Nutrition Programs (WIC)	8,139,501	2,921,682	0	11,061,183	35.90%	2,921,682	0	11,061,183	0.00%
Total	$196,014,955	$24,812,665	$2,741,080	$223,568,700	14.06%	$36,200,836	$5,669,339	$237,885,130	6.40%
Funding									
General Fund	$43,924,032	$5,220,963	$622,725	$49,767,720	13.30%	$6,268,444	$1,448,574	$51,641,050	3.76%
State Special Revenue	8,759,403	(331,790)	0	8,427,613	-3.79%	53,600	0	8,813,003	4.57%
Federal Special Revenue	143,331,520	19,923,492	2,118,355	165,373,367	15.38%	29,878,792	4,220,765	177,431,077	7.29%
Total	$196,014,955	$24,812,665	$2,741,080	$223,568,700	14.06%	$36,200,836	$5,669,339	$237,885,130	6.40%

Note: Table reflects benefits only; no operational costs are included

Total benefits increase 14.1 percent in fiscal 1998 from the base budget and an additional 6.4 percent in fiscal 1999. Anticipated caseload increases and proposed provider rate increases are the major factors contributing to this increase.

Primary Care benefits include services such as hospitalization, doctors, and prescription drugs. Primary care is proposed to increase $16.7 million in fiscal 1998 from the base budget and $29.5 million in fiscal 1999 due primarily to anticipated caseload increases and proposed provider rate increases.

Medicaid-eligible costs are reimbursements to schools for medically necessary services provided to Medicaid-eligible children. The general fund match is budgeted in the Office of Public Instruction.

Indian health benefits reimburse the Indian Health Service for medical services provided to Medicaid-eligible persons on the Flathead, Blackfeet, Rocky Boy, Fort Belknap, Crow, Northern Cheyenne, and Fort Peck Indian reservations. These are funded 100 percent with federal funds.

The Medicare buy-in pays for Medicare Part B premiums for Medicaid-eligible persons who are 65 years of age or older. Medicare (federal funds) then pays for 80 percent of their medical expenses, leaving a liability of only 20 percent for Medicaid which is partially funded with general fund.

Targeted case management services for children at risk is a new proposal designed to enable local health departments to provide public health services to Medicaid-eligible segments of the maternal and child population and receive Medicaid reimbursement for those services. Federal funds are contained in the Executive Budget for this proposal while the state matching funds will come from local sources and are not contained in the state budget.

The 100 percent federally funded WIC grant provides food benefits for women, infants, and children.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issue **- The Executive Budget does not reflect the expenditure transfer out of this program to fund the Mental Health Access Plan; therefore, the present law table is incomplete. Table 18 below shows the additional adjustment needed each year in this program to fund the Mental Health Access Plan.**

4) Medicaid Volume Increase - The Executive Budget adds $14,626,048 in fiscal 1998 and $24,523,877 in fiscal 1999 for Medicaid volume increases. Each biennium the Medicaid Program undergoes significant changes in the number of eligible recipients, services per recipient, the number of services, and the mix of services. Please see the overview of the Medicaid Program.

6901 07
Department of Public Health & Human Services
Health Policy & Services Division

		Present Law Description	Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	294,064	301,633
02		Inflation/Deflation	19,917	35,397
03		Fixed Costs	(6,295)	(1,245)
		Total Statewide Adjustments	$307,686	$335,785
Significant Present Law Adjustments				
04	91004	Medicaid Volume Increase	14,626,048	24,523,877
05	91010	Medicaid Authority For Outreach	200,000	200,000
06	91019	Fcs Local Health Board Activities	40,000	40,000
07	91026	Fcs State Health Support	10,000	10,000
08	91027	Miami Expansion To Selected Indian Reservations	75,000	75,000
09	91030	Indian Health Service Federal Spending Authority	5,000,000	5,000,000
10	91083	Pharmacy Management Contracts	87,197	87,197
11	91095	Passport Independent Assessment	140,000	0
12	91099	Dental,Orthodontia & Audiology Consultants	2,700	3,820
13	91730	Hmo/Passport Management Contract	317,264	317,264
14	91732	Medicaid Eligible Education Costs	(67,484)	10,459
15	91735	Medicare Buy-In	2,332,419	3,744,818
16	91736	Hsb Administrative Reduction	(33,877)	(33,877)
17	91737	Health Planning	48,423	48,350
18	91738	Certificate Of Need	46,123	46,123
19	91741	Emergency Medical Services	(66,235)	(62,661)
20	91742	Chronic Disease	96,923	102,414
21	91743	Diabetes Control	89,828	104,246
22	91744	Tobacco Control	64,591	74,541
23	91746	Residency Program Transfer To U System	(100,000)	(100,000)
24	91747	Fch Bureau Administrative Increases	286,824	286,824
25	91749	Mch Data Utilization Grant	(40,000)	(40,000)
26	91750	Family Planning	29,638	29,638
27	91751	Wic/Nutrition Programs	4,055,364	4,175,561
28	91753	Children's Special Health Services	(37,861)	(37,861)
29	91754	Genetics	65,272	65,272
30	91755	Cdep Bureau Contracted Services	24,060	23,786
31	91756	Communicable Disease Emergency Response Funds	25,000	25,000
32	91757	Immunization Contracts	113,111	113,111
33	91758	Hiv Prevention Project	550,000	600,000
34	91759	Sexually Transmitted Disease Prevention Contracts	35,872	35,756
35	91760	Tuberculosis Prevention Contracts	46,615	46,615
		Total Significant PL Adjustments	$28,062,815	$39,515,273
Other Base Adjustments			($26,556)	$506,569
		Grand Total Present Law Adjustments	$28,343,945	$40,357,627

Table 18
Additional Present Law Adjustment
Health Policy & Services Division
1999 Biennium

	Fiscal 1998	Fiscal 1999
Executive Budget P/L Adjustments	$28,343,945	$40,357,627
Transfer for Mental Health Access Plan	(22,233,167)	(23,469,739)
Revised Present Law Adjustments	$6,110,778	$16,887,888

LFD Comment **- Base year expenditures for primary care services were $168,124,821. This adjustment increases the Primary Care benefits budget and provides an average annual compounded 4.6 percent increase from fiscal 1996 to fiscal 1999 which is approximately 1 percent less than average annual compounded increases over the last two fiscal years. The adjustment is funded with general fund and federal Medicaid funds at the estimated FMAP rate. General fund totals $4,362,950 in fiscal 1998 and $7,082,496 in fiscal 1999; federal Medicaid funds total $10,263,098 in fiscal 1998 and $17,441,381 in fiscal 1999. See the LFD Issues section in the agency summary for a discussion of Medicaid estimates.**

5) Medicaid Authority for Outreach - The Executive Budget increases spending authority by $200,000 each year of the biennium for federal Medicaid used to match private funds raised by Healthy Mothers Healthy Babies (HMHB). The funds are used for outreach activities and education of Medicaid-eligible individuals regarding healthy lifestyles and healthy behaviors.

LFD Comment **- The state special revenue account listed as the source for the 50 percent match did not record receipt of any private funds in fiscal 1996.**

6) FCS - Local Health Board Activities - The Executive Budget increases funding by $40,000 each year of the biennium, within the Food and Consumer Safety Program (FCS), for local health board inspections. This authority will allow 100 percent expenditure of the anticipated state-licensed establishment fees used to fund mandatory food establishment inspections and for participation in preventive health programs for licensed establishments.

LFD Comment **- The increased $40,000 per year budget request is in anticipation of increased revenue collections from licensing fees. More businesses are being licensed. The license cost remains the same. Statutes mandate that the revenues be returned to county health departments for inspection, education, and compliance activities. Counties receive 85 percent of the licensing fees, while the FCS program of PHHS retains 15 percent. For further discussion of these licensing fees, see the "Program Issue" section for the issue entitled "Food and Consumer Safety". These funds are state special revenues.**

7) FCS - State Health Support - The Executive Budget increases funding by $10,000 each year of the biennium to allow 100 percent expenditure of the state share of establishment licensure fees. These funds will be used to support local health department participation in the inspection and enforcement programs through training and education.

LFD Comment **- This adjustment appropriates the 15 percent share of the licensing fees (described in item 6 above) for program support activities in the FCS program of PHHS. The increase is anticipated due to more businesses being licensed. These funds are state special revenues.**

8) MIAMI Expansion to Selected Indian Reservations - The Executive Budget adds $75,000 each year of the biennium to expand MIAMI services to three Indian reservations or non-tribal entities to focus on improving pregnancy outcome and

reducing infant deaths in the Native American population.

***LFD Issue* - MIAMI is an acronym for the Montana Initiative for the Abatement of Mortality in Infants. This proposal is funded with 100 percent general fund. A new proposal has also been requested for additional FTE in the MIAMI/Family Planning area. For a discussion of this new proposal and information regarding the 1995 legislative action in this program, see item number 9 in the new proposal section. Since this adjustment involves expansion into a new geographic area, the legislature may wish to consider this a new proposal. Expenditures are designated for contracted services.**

9) Indian Health Service Federal Spending Authority - The Executive Budget adds $5,000,000 each year of the biennium for the anticipated level of increased expenditures associated with the Indian Health Services (IHS) Program. The department contracts with the Billings Area IHS to facilitate payment for services provided to eligible Native American Medicaid recipients. Payment for these services is 100 percent federal funds, and the state operates as a pass-through entity in paying these funds for the federal government.

***LFD Comment* - Base year expenditures were $10,984,643. Therefore, this increase totals 45.5 percent, or significantly beyond anticipated increases based upon medical inflation or population changes.**

10) Pharmacy Management Contracts - The Executive Budget increases funding by $87,197 each year of the biennium for three pharmacy management contracts: a Drug Utilization Review (DUR) contract with the Montana/Wyoming Foundation for Medical Care (MWFMC); a contract with the University of Montana School of Pharmacy and Allied Health Sciences to recommend a drug formulary; and a contract with the MWFMC for the operation of a drug prior authorization program.

***LFD Comment* - The 1995 legislature added $926,865 for this purpose for the 1997 biennium and reduced projected Medicaid benefits by $3.4 million over the 1997 biennium. Base year expenditures for these contracts totaled $252,095. The proposed present law adjustment increases funding for the contracts 34.6 percent in the 1999 biennium. The adjustment is funded with $29,731 general fund and $57,466 federal Medicaid administration funds each year of the 1999 biennium.**

11) Passport Independent Assessment - The Executive Budget adds $140,000 in fiscal 1998 to support a federal regulatory requirement to contract every two years with an independent entity to evaluate the PASSPORT Program. The next scheduled review is in fiscal 1998. The current contract is with the University of Montana, which also supplies part of the state match.

***LFD Issue* - There were no base year expenditures for this purpose. The department expects its most recent independent assessment to be completed by December 1996. Since the assessment is required every two years, the legislature may want to appropriate the funds for fiscal 1999 rather than fiscal 1998. The legislature may also want to be briefed on the results of the December 1996 assessment prior to taking action on the primary care budget. The adjustment is funded with 50 percent state funds and 50 percent federal Medicaid funds.**

12) Dental, Orthodontia, and Audiology Consultants - The Executive Budget adds $2,700 in fiscal 1998 and $3,820 in fiscal 1999 for consultant services to the department for audiology/hearing aid medical necessity reviews and for technical pediatric, dental, and orthodontia program review.

***LFD Comment* - This proposal is funded with 50 percent general fund and 50 percent federal funds. The expenditures are designated for contracted services with an audiologist for review of whether a requested hearing aid is medically necessary. This consultant serves the Children with Special Health Needs program, and insures appropriate Medicaid reimbursement for hearing aids. Pediatric dental reviews would also be**

conducted with these funds.

13) HMO/Passport Management Contract - The Executive Budget increases $317,264 each year of the biennium to annualize the current level of administrative contract. The increase is for the contract with Unisys Corporation for its services in HMO/Passport administration. The contract is currently $1,150,000 per year, which is not fully reflected in the base.

LFD Issue **- Base year expenditures totaled $832,736. The current contract allows a maximum payment of $926,332 in fiscal 1997(not $1,150,000 as noted above). Contract language allows for increases equaling the Consumer Price Index (CPI) and one time costs, such as updating HMO actuary rates. Discussions with the agency showed that this present law adjustment should be reduced to $159,533 in fiscal 1998 and $146,197 in fiscal 1999. The contract is funded with 50 percent general fund and 50 percent federal Medicaid administration funds.**

14) Medicaid Eligible Education Costs - The Executive Budget reduces $67,484 in fiscal 1998 and increases $10,459 in fiscal 1999 due to projected growth rates for this program. Medicaid pays for eligible non-traditional education costs for children. The state matching funds are appropriated to the Office of Public Instruction.

LFD Comment **- The adjustment is funded 100 percent with federal Medicaid funds. Base year expenditures totaled $846,905.**

15) Medicare Buy-In - The Executive Budget increases funding by $2,332,419 in fiscal 1998 and $3,744,818 in fiscal 1999 for the Medicare Buy-In Program. This program allows the state to pay the part A & B Medicare premiums on behalf of individuals who are eligible for both Medicare and Medicaid. Projected increases are due to caseload growth for part A & B eligibles and premium rate changes for each group.

LFD Comment **- The Montana Medicaid program pays the Medicare premium for Medicaid eligible persons who are disabled or 65 years or older. This program acquires Medicare coverage for this population and assures that Medicare will pay for 80 percent of their medical expenses leaving a liability of only 20 percent of these expenses for Medicaid. Base year expenditures totaled $7,919,085. The adjustment results in a 29.5 percent increase in fiscal 1998 from fiscal 1996 expenditures and a 13.8 percent increase in fiscal 1999 from fiscal 1998. See the LFD Issues section in the agency summary for a discussion of Medicaid estimates.**

16) HSB Administrative Reduction - The Executive Budget reduces the budget by $33,877 each year of the biennium due to completion of a one-time contract in the Health Systems Bureau for Yellowstone County health planning.

LFD Comment **- This contract was for regionalizing public health services by providing services in rural locations not previously served.**

17) Health Planning - The Executive Budget adds $48,423 in fiscal 1998 and $48,350 in fiscal 1999 for several contracts to provide enhancements to, and extract data from, county systems for use in health statistics.

LFD Issue **- This adjustment is funded with 100 percent general fund. Upon inquiry, program officials were unable to indicate what the statistics were in regards to and how they would be used. Expenditures are designated for contracted services. Fiscal 1996 expenditures equaled $3,301; thus, this request represents more than a 1000-fold increase in requested expenditures for contracted services for health statistics. The legislature may wish to review this as a new proposal due to the expansion of program effort.**

18) Certificate of Need - The Executive Budget adds $46,123 each year of the biennium to pay for Certificate of Need (CON) contested case hearings officers located in the Attorney General's Office and for an update to the CON and health facility utilization information system which is used to process CON applications.

LFD Issue **- The CON program regulates the construction and expansion of health care facilities in the state. The funding for this adjustment is 100 percent general fund. The expenditures are planned for contracted consultant services to carry out the requirements of this program per MCA 50-5-101 to 1107. The 1995 legislature revised the laws governing CON in SB 416 in areas related to batching and challenge periods; removal of certain functions from CON; revising application, review, and appeal procedures; and contingently repealing parts of the CON program based on HB 2 funding levels. HB 2 appropriated $92,246 (on a biennial basis) of general fund. These funds were not to be included in the base budget for the 1999 biennium. Hence, this one-time-only appropriation should be classified as a new proposal rather than a present law adjustment.**

19) Emergency Medical Services - The Executive Budget decreases by $66,235 in fiscal 1998 and $62,661 in fiscal 1999. These reductions bring the base level of spending in the EMS program to the fiscal 1996 level, and related expansions of the EMS program are reflected in new proposals for the EMS Data Prevention Grant and EMS Injury Prevention and Control System.

LFD Comment **- Appropriated federal funds were not received as anticipated. This adjustment reflects this fact.**

20) Chronic Disease - The Executive Budget adds $96,923 in fiscal 1998 and $102,414 in fiscal 1999 in federal chronic disease grant funds to increase contracted services for data collection, statistical analysis, and training and conferences, and for increased expenditures at the local level.

LFD Comment **- These requested federal funds would be utilized to expand the data and statistical base for determining factors contributing to health risks in Montana. Telephone surveys are conducted by a contractor. Planned expenditures are for contracted services with private and non-profit entities.**

21) Diabetes Control - The Executive Budget adds $89,828 in fiscal 1998 and $104,246 in fiscal 1999 to allow authority for increased expenditures in the federal diabetes control grant. Funds will be used for health communications and marketing of diabetes control programs, and for expansion of community-based prevention and control programs.

LFD Comment **- These requested federal funds are budgeted to be expended primarily through contracts with non-profits. Tasks include: 1) data collection, surveillance, detection, and advising local health care entities; and 2) continuation of on-going programs.**

22) Tobacco Control - The Executive Budget adds $64,591 in fiscal 1998 and $74,541 in fiscal 1999 to allow authority for increased expenditures in the federal tobacco control grant. Funds will be used for providing services to reduce access and use of tobacco products, in particular by youth, and for contracts with local coalitions for comprehensive tobacco prevention and control projects.

LFD Comment **- These federal funds are budgeted for contracts with non-profits such as the American Lung Association of the Northern Rockies, and 15 contracts with local community organizations (such as county health departments and schools). PHHS anticipates this federal funding increase due to presidential initiatives on tobacco control.**

23) <u>Residency Program Transfer to University System</u> - The Executive Budget transfers $100,000 each year of the biennium from the department to the Montana University System for the Rural Physician Residency Program. The funds for this program will reside in the state funds allocation to the Commissioner of Higher Education.

***<u>LFD Comment</u>* - This transfer is entirely funded with general fund.**

24) <u>FCH Bureau Administrative Increases</u> - The Executive Budget adds $286,824 each year of the biennium in the Family and Community Health (FCH) Bureau to provide funding for four contracts: a legislative initiative for a Local County Health Care Provider project; a contract for the mandatory toll-free telephone service for Healthy Mothers Healthy Babies; a contract for the Pregnancy Information hot-line telephone project; and a contract with the Butte-Silver Bow City-County Health Department to operate the childhood lead poisoning prevention program.

***<u>LFD Comment</u>* - The fiscal 1996 base amount and requested annual amounts for these contracts during the 1999 biennium are as follows:**

> **1) two telephone services ($27,176 in fiscal 1996 versus $49,000 for each year of the 1999 biennium), funded with federal funds;**
>
> **2) $300,000 of federal funds for the Montana Lead Poisoning contract in fiscal 1996, as compared to $265,000 for each year of the 1999 biennium; and**
>
> **3) $300,000 each year of the 1999 biennium for the Local Health Care Provider Project.**

There were no fiscal 1996 expenditures in the provider project; however, agency officials plan to incur expenditures during fiscal 1997. For a further discussion of the provider project, see below. The health care provider project is funded with 50 percent state special revenues and 50 percent general fund.

***<u>LFD Issue</u>* - The 1995 legislature approved a biennial appropriation of $300,000 general fund and $300,000 state special revenue to help local health agencies obtain Medicaid reimbursement for services provided to low income Montanans. The general fund money was designated to pay the state match for administrative costs to contract for assistance. Local health care agencies were to provide the state special revenue to fund the 30 percent state match for Medicaid benefit costs. Federal matching funds for administrative costs of $300,000 and federal Medicaid benefit match of $1,000,000 are included in the Medicaid program budget. Language in HB 2 required that the general fund be used only to assist local agencies in obtaining Medicaid reimbursement and to assist communities in implementing local health care services. PHHS officials state that a report is scheduled to be complete by the 1997 legislative session that presents the results of their effort to obtain Medicaid reimbursements for these services. The report assesses the process, probability of success, and feasibility of achieving objectives at the local health agency level. The legislature may wish to review this report before making their determination on whether to continue funding this project.**

25) <u>MCH Data Utilization Grant</u> - The Executive Budget decreases $40,000 each year of the biennium due to elimination of the maternal and child health (MCH) data utilization grant, which ended September 30, 1996. This grant funded a county data development project during the 1997 biennium.

***<u>LFD Comment</u>* - This grant was funded with federal funds.**

26) Family Planning - The Executive Budget adds $29,638 each year of the biennium from the federal Title X Family Planning funding to increase grants to counties and local health care providers for enhanced family planning services.

LFD Comment **- A new proposal (item number 9) also addresses increased family planning activities.**

27) WIC/Nutrition Programs - The Executive Budget adds $4,055,364 in fiscal 1998 and $4,175,561 in fiscal 1999 for authority to spend the full Women, Infants, and Children (WIC) Program federal grant in advance of receiving rebates from manufacturers, and to fund projected increases in benefit levels as calculated by federal formulas.

LFD Comment **- The present law adjustment for the WIC food benefits program equaled $2.1 million per year during the 1997 biennium. This program is 100 percent federally funded.**

28) Children's Special Health Services - The Executive Budget decreases $37,861 each year of the biennium due to reduced cost of specialty clinic consultations ($17,932 per year), a reduction in projected funding requirements for ten home visiting projects and four contracts for medical specialty clinics for children with cleft/craniofacial and cardiac conditions ($8,267), and a decrease in the funding for a special health services data system ($11,662). The fiscal 1996 expenditure for these items was $422,861.

LFD Comment **- These reductions were in federal funds.**

29) Genetics - The Executive Budget adds $65,272 each year of the biennium for the Montana Medical Genetics Program, operated by Shodair Hospital in Helena, to provide genetic counseling and testing. This amount is based on the fiscal 1996 collections from a $.70 fee on each Montana resident insured under any individual or group disability or health insurance policy sold, used to fund the program.

LFD Comment **- This adjustment is funded with general fund, but the fees (discussed above) are deposited to the general fund upon collection to offset the appropriation. It represents a 12 percent increase above fiscal 1996 actual expenditures.**

30) CDCP Bureau Contracted Services - The Executive Budget adds $24,060 in fiscal 1998 and $23,786 in fiscal 1999 for contracted services to support the prevention and education activities associated with the Communicable Disease Control and Prevention (CDCP) Bureau.

LFD Issue **- The legislature may wish to consider this request, funded with federal funds (PHBG), as a new proposal since there were no contracted services in this area in fiscal 1996.**

31) Communicable Disease Emergency Response Fund - The Executive Budget increases $25,000 each year of the biennium to continue the communicable disease emergency response fund authorized by the 1995 legislature, which allows the department to respond to disease outbreaks and other health emergencies for which the department is not otherwise funded.

LFD Comment **- The 1995 legislature appropriated $50,000 of general fund on a restricted, biennial basis to provide for Communicable Disease program response to disease outbreaks and other health emergences. This provides for continuation of this response capability. The adjustment is funded with general funds. (There were no fiscal 1996 expenditures). Should the legislature decide to appropriate these funds, it may wish to continue the restricted, biennial condition upon the appropriation due to its intended emergency usage.**

32) Immunization Contracts - The Executive Budget adds $113,111 each year of the biennium to fund increased contracts with county health programs to provide immunization services, and for pharmacy contracts to store and distribute the vaccines.

***LFD Comment* - This program is 100 percent federally funded. The majority of the increase would be provided to county health departments that provide the immunization service.**

33) HIV Prevention Project - The Executive Budget adds $550,000 in fiscal 1998 and $600,000 in fiscal 1999 for the HIV Prevention Project funded by a federal grant from the Center for Disease Control (CDC). This grant provides for HIV prevention services in three areas of program activity: 1) addressing unmet HIV prevention needs that have been identified through HIV prevention community planning; 2) supporting activities designed to build capacities of community-based organizations and other local service providers to plan, implement, sustain, and evaluate HIV prevention interventions; and 3) expanding, strengthening, and evaluating the HIV prevention community planning process. Currently, these services are being provided by the department from this grant through authority provided by a budget amendment. This proposal, along with the base level expenditures for AIDS prevention, brings the total expenditures for HIV/AIDS prevention to $1,350,004 for fiscal 1998 and $1,400,004 for fiscal 1999.

***LFD Comment* - All of these increased federal funds are budgeted to be expended through contracts with non-profits.**

34) Sexually Transmitted Disease Prevention Contracts - The Executive Budget adds $35,872 in fiscal 1998 and $35,756 in fiscal 1999 to fund additional laboratory testing costs and to increase contracts with local health care providers, funded through an expected increase in the federal grant award.

***LFD Comment* - This federally funded present law adjustment equals a 16 percent increase in funding for STD prevention services in the 1999 biennium compared to fiscal 1996.**

35) Tuberculosis Prevention Contracts - The Executive Budget increases $46,615 each year of the biennium for additional tuberculosis prevention and outreach services with local health care providers. The increase is made possible by additional funds available through the federal grant.

***LFD Comment* - This federally funded increase is budgeted for contracts with nonprofits. There is an increase in the number of tuberculosis cases needing services at the local health department level.**

Other Base Adjustments - Numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

6901 07
Department of Public Health & Human Services **Health Policy & Services Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Prevention Of Unintended Pregnancy		250,000		250,000		250,000		250,000
02	Breast & Cervical Cancer Prevention	1.50		1,150,000	1,150,000	2.00		1,150,000	1,150,000
03	Detect&Correct Drg Upcoding		(116,287)	(374,463)	(490,750)		(110,207)	(380,543)	(490,750)
04	Rape Prevention & Education			92,400	92,400			92,400	92,400
05	Targeted Case Management For Children At Risk			653,500	653,500			653,500	653,500
06	Inpatient Hospital Rate Increase		241,623	568,377	810,000		483,538	1,190,762	1,674,300
07	Outpatient Hospital Rate Increase		131,664	309,717	441,381		274,279	675,442	949,721
08	Medicaid Primary Care Provider Rate Increase		440,350	1,035,849	1,476,199		875,589	2,156,229	3,031,818
09	Miami/Family Planning Health Educator	0.75		27,396	27,396	1.00		33,196	33,196
10	School Health Coordinator	0.75	33,992	33,992	67,984	1.00	38,491	38,491	76,981
11	Chronic Disease Epidemiologist	0.75		39,912	39,912	1.00		46,550	46,550
12	Montana Healthy Communities		30,000		30,000		30,000		30,000
13	Drg Rebase		87,500	87,500	175,000				
14	External Quality Review Organization Contract		40,000	40,000	80,000		40,000	40,000	80,000
15	Healthy Child Care Grant			50,000	50,000			50,000	50,000
16	Ems Data Prevention Grant	0.75		128,127	128,127	1.00		128,127	128,127
17	Ems Injury Prevention And Control System		60,000		60,000		60,000		60,000
18	Integration Of Data Systems			300,000	300,000			300,000	300,000
	Total For New Proposals	4.50	$1,198,842	$4,142,307	$5,341,149	6.00	$1,941,690	$6,174,153	$8,115,843

Executive New Proposals

1) Prevention of Unintended Pregnancy - The Executive Budget adds $250,000 each year of the biennium to support a program to reduce unintended pregnancy in Montana, with a focus on teen pregnancy prevention. Through a request for proposal process, funding will be allocated to local community applicants to implement teen pregnancy prevention projects. An estimated 367 unintended pregnancies will be prevented and community awareness will be raised about unintended pregnancy prevention issues.

LFD Comment **- This proposal is funded with 100 percent general fund. The family planning services that would be provided include physical exams, pregnancy testing, lab testing, contraceptive dispensing and education, screening and treatment for sexually transmitted diseases, immunizations for rubella, and referral to other public and private health care and social service providers. Abortion services would not be funded with this new proposal. Counseling in regard to all available options to pregnant women would be funded. The funds would be expended through grants to local community entities, and do not necessarily require a commitment beyond the 1999 biennium.**

Under federal welfare reform, $50 million a year in mandatory funds will be added (nation-wide) to the Maternal and Child Health (MCH) Block Grant for teen pregnancy prevention/abstinence education. The U.S. Health and Human Services (HHS) agency will establish and implement a strategy to prevent non-marital

teen births, and assure that at least 25 percent of communities have teen pregnancy prevention programs. The U.S. Attorney General will also establish a program by January 1997 that studies the linkage between statutory rape and teen pregnancy, and that educates law enforcement officials on the prevention and prosecution of statutory rape.

In regard to whether these federal funds could be used to accomplish this task rather than general funds, PHHS officials were unaware of the following at the time of preparation of this report: 1) how much of these funds Montana would receive; 2) what program components would be eligible for federal funds; 3) restrictions on usage of the funds; and 4) when federal information would be available in regards to these questions.

PHHS officials estimate that of the 44,930 low and marginal income women who need subsidized family planning services in Montana, 12,698 are not receiving services from organized programs or private physicians.

2) Breast and Cervical Cancer Prevention - The Executive Budget adds 1.50 FTE and $1,150,000 in fiscal 1998 and 2.00 FTE and $1,150,000 in fiscal 1999 for a breast and cervical cancer screening program to detect these cancers early, when they are most treatable and survival rates are highest. The objective is to achieve a breast cancer screening rate for Montana women, age 40 and over, of 80 percent annually and a cervical cancer screening rate for Montana women, age 18 and over, of 88 percent annually. A target population of women currently not receiving any breast and cervical cancer screening, primarily due to cost, will be funded for screening. This population is primarily women over 50 years of age, uninsured, under-insured and in minority groups. The program expects to provide screening services to approximately 4,500 at-risk women who currently do not have access to service. Educational efforts with consumers and providers will increase awareness and screening of women who have access, but are not currently being screened.

LFD Comment **- This proposal is funded with 100 percent federal funds. Potential future fiscal commitment of the state is primarily in regard to maintenance of the FTE requested in this new proposal (Grade 15 Health Educators) beyond this biennium, should federal support be reduced in future biennia. The majority of the funds ($1,100,204 in fiscal 1998 and $1,083,605 in fiscal 1999) are designated for contracted services to provide screening tests. Based on 4,500 women anticipated to be served, the average cost would equal $240 per screening. The personal service costs for the requested FTE is $49,796 in fiscal 1998 and $66,395 in fiscal 1999.**

3) Detect and Correct DRG Upcoding - The Executive Budget is reduced by $490,750 each year of the biennium due to savings as a result of implementation of a system for detecting and correcting upcoding in diagnosis related grouping (DRG) codes in hospital reimbursement. This proposal would allow the department to utilize specially designed software and contract for technical assistance to run the software and prepare Medicaid Management Information System (MMIS) claims adjustments related to upcoding of hospital claims to increase reimbursement in the DRG system. Claims that are suspected of having been incorrectly coded would be flagged and medical records would be further reviewed to determine the propriety of the coding. An RFP will be issued in order to solicit competitive bidding for the project. Benefits savings are estimated to be $1,280,000 and contracted services costs will be $299,000 during the biennium.

LFD Comment **- Upcoding is the practice used by some providers to maximize their DRG reimbursements. The software proposed for purchase detects when upcoding may have been used. The department anticipates a savings of 2 percent per year in its DRG in-patient hospital claims payments due to implementation of this system. The benefit savings reflected in the request, $640,000 annually, is funded with general fund and federal funds at the estimated FMAP rate. The additional operational costs, $148,750 annually, is funded with 50 percent general fund and 50 percent federal Medicaid administration funds. The overall 1999 biennial**

savings is $226,494 general fund and $755,006 federal funds.

4) Rape Prevention and Education - The Executive Budget adds $92,400 each year of the biennium for the federally mandated Rape Prevention and Education Project to support an increased grant award from the Centers for Disease Control and Prevention (CDC). This federal grant provides for educational seminars and information materials, operation of telephone hot lines, training programs for professionals, and other efforts to increase awareness of facts about, and how to prevent, sexual assault.

LFD Comment **- This new proposal is funded with federal funds, and is a continuation of an on-going five year program. A budget amendment provided increased federal spending authority during the 1997 biennium which was the result of an increased grant award from the CDC.**

5) Targeted Case Management for Children at Risk - The Executive Budget adds $653,500 each year of the biennium to continue support for local health agencies to bill for reimbursable Medicaid services and to provide targeted case management (TCM) services to segments of the maternal and child health population who are eligible as provided in administrative rules. Additional mechanisms for securing federal financial participation through Medicaid for professional and support services provided to the Medicaid-eligible population will utilize a portion of these funds for match at the county level. This program is to comply with a legislative initiative which required the department to maximize Medicaid reimbursement for public health services provided to the maternal and child health population.

LFD Comment **- This new proposal is funded with 100 percent federal funds. Expenditures are budgeted for social assistance. This is a new proposal since it expands services beyond the original legislative initiative in the following areas: 1) services for indigents who are not Medicaid eligible; 2) determining how local health agencies can obtain services for those impacted by welfare reform; and 3) providing focused home visiting in five counties.**

6) Inpatient Hospital Rate Increase - The Executive Budget adds $810,000 in fiscal 1998 and $1,674,300 in fiscal 1999 to increase the base reimbursement rate for inpatient hospital services by 1.50 percent each year of the biennium. The requested increase would be applied to the base DRG rate.

7) Outpatient Hospital Rate Increase - The Executive Budget adds $441,381 in fiscal 1998 and $949,721 in fiscal 1999 to increase the base reimbursement rate of the outpatient hospital system by 1.5 percent each year of the biennium. The outpatient hospital system was recently changed to move reimbursement for most services from a cost-based system to a prospective payment system.

8) Medicaid Primary Care Provider Rate Increase - The Executive Budget adds $1,476,199 in fiscal 1998 and $3,031,818 in fiscal 1999 to increase the base reimbursement rate for Medicaid primary care providers by 1.5 percent each year of the biennium. The increase will be distributed in two ways. For primary care providers who were included in the Resource Based Relative Value Scale (RBRVS) study, the increase will be distributed in accordance with the recommendations of the study which revised the reimbursement methodology for physicians and other practitioners. (The RBRVS study was approved by the last legislature for the express purpose of moving away from the approach of basing fees on charges to a more objective method of payment which is based on resources used.) For those providers not included in the study, i.e., ambulance, ambulatory surgical centers, and transportation providers, the increase will be distributed to each provider group to address the areas of greatest concern to the department and the providers.

LFD Comment - Items 6, 7, & 8 **- The provider rate increases proposed in items 6, 7, & 8 were calculated with the assumption that the present law adjustment for Medicaid volume increases was included in the base. The**

provider rate increases are funded with general fund and federal Medicaid funds at the estimated FMAP rate. For the three proposals combined, general fund totals $813,637 in fiscal 1998 and $1,633,406 in fiscal 1999 while federal Medicaid funds total $1,913,943 in fiscal 1998 and $4,022,433 in fiscal 1999. The department did not specify how the funds would be allocated to those providers not included in the RBRVS study. See the LFD Issues section in the agency summary for a discussion of Medicaid estimates.

9) MIAMI/Family Planning Health Educator - The Executive Budget adds 0.75 FTE and $27,396 in fiscal 1998 and 1.00 FTE and $33,196 in fiscal 1999 for a full-time reproductive health educator to work in the Family Planning Program and MIAMI projects. The position will provide specific health education coordination assistance by working directly with local staff to implement preventive educational services. The education components include: community assessment and evaluation processes, development/use of training and educational tools regarding reproductive health issues, and monitoring effectiveness of state/local educational efforts. Preventive educational services target the reduction of unintended pregnancy, with particular emphasis on reducing subsequent pregnancies among local MIAMI clients.

LFD Comment **- MIAMI is an acronym for Montana Initiative for the Abatement of Mortality in Infants. The 1995 legislature increased general fund expenditures by $85,370 in fiscal 1996 and $84,212 in fiscal 1997 to restore a portion of personal services reductions taken against the MIAMI program expansion in fiscal 1994. HB 2 restricted the use of $414,000 each year in general fund so that it may only be used for MIAMI. Family planning grants to local agencies were increased by $32,622 annually as a result of 1995 legislative session action. The 1995 legislature also appropriated $50,000 per year (federal funds) for contracted services to provide statewide coordination and supervision of family planning activities. (The requested 1.0 FTE was not approved). In regard to the services provided by this requested FTE in relationship to these contracted services, program officials were unable to indicate if there was a duplication of request, and how the work performed by the contracted professionals versus the requested FTE would differ. The legislature may wish to inquire into the possibility of duplication. In addition, the new proposal entitled "Prevention of Unintended Pregnancy" also requests increased funding for family planning activities.**

10) School Health Coordinator - The Executive Budget adds 0.75 FTE and $67,984 in fiscal 1998 and 1.00 FTE and $76,981 in fiscal 1999 for a state school health coordinator. This individual will provide a formal means to link state education and health agencies and to create a coordinated approach to comprehensive school health. This will be done by providing a state focus on the health of preschool and school age children who are in a growing number of preschool programs, such as Head Start. The school health coordinator will increase activities and work toward standardizing the health component of preschool programs, in cooperation with the Head Start health coordinators.

LFD Comment **- This grade 16 position is proposed to be funded with 50 percent general fund and 50 percent federal funds (MCH block grant). These federal funds previously partially supported an FTE designated for a medical advisor, which was deleted as an efficiency of reorganization. The requested funds are designated to be spent in personal service costs (40 percent in fiscal 1998 and 47 percent in fiscal 1999), operating expenses, and equipment ($2,500 for a computer).**

PHHS officials are requesting this FTE on the basis of a need for a state focus due to a growing number of preschool programs, such as Head Start. The purpose of this FTE would be to work with existing Head Start health coordinators to establish state-level standardization of the health component of Head Start. The requested FTE would also be used to establish a state-level presence in the area of school health for children and adolescents, according to agency officials. The FTE would serve as a link between state education and health agencies, according to PHHS.

11) Chronic Disease Epidemiologist - The Executive Budget adds 0.75 FTE and $39,912 in fiscal 1998 and 1.00 FTE and $46,550 in fiscal 1999 for a chronic disease epidemiologist to perform special epidemiologic studies related to heart disease, cancer, diabetes, and related risk factors. This individual will prepare reports for use by public health programs and will provide technical assistance to department staff on disease control methodology, technological advances, disease trends, practice standards, and policy change recommendations. The Centers for Disease Control and Prevention is agreeing to partner with the State of Montana, on a declining financial support basis, to fund this position. The position is funded by 100 percent federal funds in the first year of the biennium and 60 percent federal funds in FY 1999. In fiscal 1999, 40 percent of the funding for this position will come from the Montana/Wyoming Foundation for Medical Care.

LFD Issue **- Due to the declining federal financial support, this proposal could have a potential impact upon the general fund in future biennia. Agency officials indicate that the objective of this proposal is to evaluate existing chronic disease data for Montana to determine priorities for the future should federal funds for prevention of chronic disease be 'block granted'. Currently, a significant amount of federal funds for chronic disease prevention are granted 'categorically', that is, with the restriction that the funds be spent specifically on targeted areas, such as diabetes control. Agency officials also indicate that this FTE should become self-supporting in the future through grant awards and fees for service. Agency officials are already aware of those areas related to chronic disease in which Montana exceeds national averages (for example, smokeless tobacco use and diabetes rates).**

If the legislature desires to provide this appropriation, it may wish to evaluate whether, given what is already known about the incidence of various chronic diseases in Montana, the results of this new employee's work would significantly redirect federal funds in the future. It may wish to classify the FTE as a temporary/project assignment that would terminate upon study completion, and/or make provision of the FTE contingent upon the availability of non-general fund sources of funding. The legislature may wish to further express its intent that the department not ask for any state funds to support this position beyond the 1999 biennium.

12) Montana Healthy Communities - The Executive Budget includes $30,000 each year of the biennium to support the Montana Healthy Communities coalition program. Healthy community initiatives allow residents of a community to become involved in solving problems which affect health status. This program will provide a coordinated system of training, technical assistance, and "mini-grant" funding to support local collaborative community health initiatives.

LFD Issue **- This proposal is funded with 100 percent general fund, which would be expended for consulting and professional services. The mini-grants are for public involvement, program planning, and public relations in local communities. The funds would be granted to non-profit organizations such as chemical dependency groups, school districts, and the American Cancer Society. PHHS officials report that the goal of this new proposal is to determine 10 communities' priority health and social concerns. PHHS officials indicate that the funds will be used for printed materials, travel, and other direct expenses incurred by the agency in providing assistance to 10 local communities conducting Healthy Community Activities. Existing agency staff will provide the training and consultation services.**

The legislature may wish to consider whether significant benefit can be achieved on a state-wide basis with the limited amount of requested funds. Assurance that the funds will: 1) accurately determine a communities' priority public health concerns; 2) result in significant changes in how resources are directed; and 3) involve significant numbers of the general public (rather than just health service professionals and governmental officials) are weak given the inherent limitations of such planning/public involvement efforts. The legislature may wish to determine if PHHS officials can provide sufficient guarantees that the funds will accomplish stated goals. The legislature may also wish to consider whether this new proposal is a duplication

of existing local, state, and federal governmental program objectives.

13) DRG Rebase - The Executive Budget adds $175,000 in fiscal 1998 for a contract and related software to rebase the inpatient hospital DRG system. A rebase is necessary to ensure that inpatient hospital rates reflect current health care trends and costs. A rebasing should typically occur about every three years, with the next rebase of the Montana Medicaid DRG system in fiscal 2000. To have the system available at that time, a consultant must be hired in fiscal 1998, and work completed by January 1999.

LFD Comment **- Federal law requires states to set reimbursement rates for hospitals that are "reasonable and adequate to meet the costs which must be incurred by efficiently and economically operated facilities in order to provide care and services in conformity with applicable State and Federal laws, regulations, and quality and safety standards, and to assure that individuals eligible for medical assistance have reasonable access to inpatient hospital services of adequate quality". This rather long-winded condition is part of what is known as the "Boren Amendment" and it requires that states adequately reimburse hospital providers for services provided to Medicaid clients. The DRG rebasing enables the agency to recalibrate its DRG rate structure and stay in compliance with the Boren Amendment. The proposed funding for the rebase study is for fiscal 1998 only and is funded with 50 percent general fund and 50 percent federal Medicaid administration funds.**

14) External Quality Review Organization Contract - The Executive Budget adds $80,000 each year of the biennium to contract with an external quality review organization (EQRO) to evaluate the quality assurance programs for Medicaid HMOs. The contractor will evaluate the quality assurance measures of the participating HMOs, design and implement focused clinical studies, and make recommendations to the state regarding improvements to the Quality Assurance Program for participating HMOs. An EQRO review is required for the Medicaid Program by federal law when care is delivered through an HMO delivery system.

LFD Comment **- This is the first time a review of this nature will be performed on the HMO program because the program was instituted in November 1995. The evaluation is an annual requirement. This type of evaluation should help the department determine if the HMOs providing Medicaid-reimbursed services are providing an acceptable quality of care to the Medicaid recipients. General fund contributes 50 percent towards the annual funding and federal Medicaid administration funds contribute the remaining 50 percent.**

15) Healthy Child Care Grant - The Executive Budget adds $50,000 each year of the biennium for a Healthy Child Care Grant. The funds will be used to develop a health curriculum for use by public health staff in working with child care providers and to increase the number of public health agencies who provide comprehensive health and safety resources for child care providers.

LFD Comment **- This proposal is funded with 100 percent federal funds (designated by agency officials as a new federal grant). Expenditures are indicated to be for contracts with nonprofits. This new proposal would focus on the health needs of children, such as promotion of immunization, addressing the needs of ill children in day-care facilities, and breast feeding programs.**

16) EMS Data Prevention Grant - The Executive Budget adds $128,127 and 0.75 FTE in fiscal 1998 and $128,127 and 1.00 FTE in fiscal 1999 to establish funding authority for the Emergency Medical Services (EMS) Data Prevention Grant, which will develop a data system related to injuries of children. The project includes improvement of pediatric data by establishing an automated statewide pre-hospital data collection system, development of a coordinated statewide data-driven injury prevention program, and improvement of pediatric emergency education of emergency health care providers.

LFD Comment **- This proposal is funded with 100 percent federal funds. If represents the third and fourth years of a continuing grant program to improve emergency medical services for children by: 1) enhanced training of EMS personnel; 2) installation of computers for data collection in ambulances; and 3) evaluation and usage of the data at the state level to improve injury prevention efforts. The funds would be used to hire an FTE (injury prevention coordinator) and for contracted services ($105,145 in fiscal 1998 and $97,484 in fiscal 1999).**

17) EMS Injury Prevention and Control System - The Executive Budget adds $60,000 each year of the biennium for the establishment and continuation of a coordinated statewide injury prevention and control program which uses the trauma registry and other data to establish and target injury prevention activities. The system will provide information to individuals and organizations to assist in department efforts to prevent, control, and report injury on a statewide basis and improve care of injured patients.

LFD Comment **- This new proposal is proposed to be funded with 100 percent general fund. PHHS officials state that these funds will be used by existing program staff to plan, coordinate, and implement a state-wide effort to evaluate trauma injury data and focus prevention efforts on most critical causative areas of deaths and injuries. Tasks would include working with other agencies and preparing educational materials for dissemination to local entities to use in educating individuals (especially children) in the area of injury prevention. Proposed expenditures are for contracted services.**

The 1995 legislature appropriated federal funds for new proposal increases of $337,000 in fiscal 1996 and $237,000 in fiscal 1997 for implementation of a statewide trauma system. However, these federal funds were not received due to cutbacks. Hence, this new proposal does not duplicate the work to be accomplished under the prior proposal.

18) Integration of Data Systems - The Executive Budget adds $300,000 each year of the biennium for a contract to provide data system integration within the division. Currently, there are more than 15 data systems in programs which serve overlapping client populations. Examples of current programs with stand-alone data systems include family planning, MIAMI, WIC, and Follow Me. The goal in integrating some or all of these systems is eliminating duplication of data entry, improving the efficiency and effectiveness of information management, reducing program costs, and enhancing program outcome.

LFD Issue **- The federal funding source has not yet been identified for this new proposal. However, multiple sources are available. PHHS officials were unable to identify the specific areas where cost savings can be achieved at the time of preparation of this report. Agency officials anticipate that the project will extend into the 2001 biennium. The scope of this integration project, a needs assessment, and analysis of costs and benefits are anticipated to be available by mid-January 1997. Before acting on this request, the legislature may wish to review the findings of this report upon its availability.**

Program Issue

Medicaid

Because Medicaid now is contained in several programs, Medicaid estimates are discussed in the "Agency Issues" section of this report.

Food and Consumer Safety

Montana statutes provide for a cooperative state-county program to protect the public's health and safety in regard to food and water sanitation, and prevention of the spread of communicable diseases. To accomplish these objectives, each year PHHS and county governments license over 8,800 establishments such as food purveyors (restaurants, bars, grocery stores, and food processors), hotels, campgrounds and trailer courts, swimming pools/spas, and septic pumpers that are required to comply with public health and safety regulations. These licensed establishments are charged a flat-rate, annual license fee that ranges from $25 (septic pumpers) to $60 (food purveyors) per year. In calendar year 1995, 65 percent of the licensees were food purveyors who paid $60. Counties and joint city-county health departments are currently responsible for the inspection, complaint investigation, compliance, education, and enforcement efforts at both licensed and unlicensed facilities. (State standards currently require that most restaurants be inspected at least twice per year, and that the remaining facilities be inspected at least once per year). There are also over 1,000 public facilities such as schools and municipal pools that are unlicensed, but are required to comply with public health requirements. Currently, about 30 to 35 full-time, registered (city-county) sanitarians are responsible for public health and safety at 9,800 facilities, which represents an average of 280 facilities per sanitarian. The state's Food and Consumer Safety (FCS) program at PHHS is responsible for regulatory development, training assistance, and licensing fee collection and disbursement to the counties. The legislature may wish to consider whether licensing fees should be raised to cover a greater proportion of the costs incurred at the state and local levels to ensure that these public facilities meet public sanitation and safety standards.

This joint state-county program is funded with a combination of state and local general fund, the license fees described in the preceding paragraph, and local service fees to a limited extent. License fees support an estimated 35 percent of state and local program costs, according to a Performance Audit Report of the Legislative Audit Division (LAD), October 1996. Fiscal 1996 license fee collections were $492,000. Counties receive 85 percent of the licensing fee collections ($426,500 in fiscal 1996). The FCS program of PHHS retains 15 percent of license fee collections ($65,300 in fiscal 1996).

The total estimated joint county-state cost to implement this program was $1,405,000 in fiscal 1996. The LAD concluded that an estimated 85 percent of county and state resources are expended on licensed facilities, as opposed to unlicensed facilities. Since it costs approximately the same to ensure health and safety regulation compliance at licensed versus unlicensed facilities, 85 percent or $1,194,000 of the total program's cost can be attributed to licensed facilities. Licensing fees paid by these facilities offset 41 percent of the costs incurred by city-county and state governments in ensuring compliance at these facilities. The legislature may wish to consider whether licensing fees should be increased to offset all or a greater percentage of the costs incurred as a result of compliance and educational activities at these facilities.

The current fee structure is based on a flat categorical (e.g. food purveyor or public accommodation) license type. Total estimated program cost, attributable to licensed facilities, could be totally offset were licensing fees increased by a flat rate factor of 2.4. For example, the current fee of $60 per year for a food purveyor license would be increased to $144 under this flat rate option. This projected fee amount compares favorably with the results of an 11 state survey conducted by the State of Idaho. These states have adopted policy ensuring that the majority of program costs are covered by license fees. The average annual maximum fee charged was about $210.

Under the enhanced flat rate fee system, an estimated $1,173,500 could be collected, with counties receiving $994,500 (85 percent), and PHHS retaining $179,000 (15 percent). Since PHHS would receive about $114,000 more in fee-generated state special revenue (compared to fiscal 1996), general fund support for the program could be reduced by about $114,000 per year.

Alternative flat rate fee increases of lesser magnitude could be assessed to partially offset licensed facilities' program costs.

An optional licensing fee structure, recommended by LAD, is under development by PHHS. It is based on health risk and the associated time spent on compliance efforts at each facility type. For example, a typical large restaurant would pay a higher fee than a small coffee shop. Such risk-based fees could be established at levels sufficient to also generate the $1,173,500 of state special revenue necessary to fully offset licensed facilities' program costs. Details of this PHHS recommendation will be available by the start of the 1999 legislative session.

The legislature may wish to consider the following options:

1) reduce general fund and increase state special revenue program support by up to $114,000 each year to reflect a flat rate increase in licensing fees by modifying the statutes that currently set the fees;

2) reduce general fund and increase state special revenues by up to $114,000 each year to reflect a health risk- (and time-) based increase in licensing fees by modifying the statutes that currently set the fees; this option would be contingent upon passage of a bill establishing this methodology. The amount of the general fund reduction would also be dependent upon the specifics of this bill; or

3) take no action.

6901 08

Department of Public Health & Human Services — **Quality Assurance Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	91.00	2.00	0.00	93.00	2.00	0.00	93.00	93.00
Personal Services	3,026,370	304,916	0	3,331,286	303,153	0	3,329,523	6,660,809
Operating Expenses	667,420	337,118	0	1,004,538	342,346	0	1,009,766	2,014,304
Equipment	75,045	(52,009)	0	23,036	(52,009)	0	23,036	46,072
Transfers	207,673	2,464	0	210,137	2,464	0	210,137	420,274
Total Costs	$3,976,508	$592,489	$0	$4,568,997	$595,954	$0	$4,572,462	$9,141,459
General Fund	1,220,418	141,825	0	1,362,243	143,937	0	1,364,355	2,726,598
State/Other Special	13,288	214,825	0	228,113	214,874	0	228,162	456,275
Federal Special	2,742,802	235,839	0	2,978,641	237,143	0	2,979,945	5,958,586
Total Funds	$3,976,508	$592,489	$0	$4,568,997	$595,954	$0	$4,572,462	$9,141,459

Program Description

The Quality Assurance Division provides a comprehensive and coordinated quality assurance program and evaluates services provided by the PHHS to the citizens of Montana. Functions include fair hearings, facility management, contract and financial audits, ongoing reviews to monitor the appropriate use of the Medicaid Program by both recipients and providers, estate recovery and cost avoidance recovery, fraud recovery, quality control samples for compliance with federal and state eligibility rules, performance measures and benchmarking, certification of health care facilities and clinical laboratories, and inspection and licensure of health care providers and other facilities or service licenses issued by the department.

Funding

The Quality Assurance Division is funded by state general fund, state special revenue, (including alcohol earmarked tax), indirect cost recoveries on state funds, and lien and estate collections (see discussion below). Federal funds are from federal indirect cost recoveries, medicare and medicaid grants, and federal alcohol block grant funds.

General fund supports a portion of every function in this division except medicare and clinical laboratory certification, nurse aide testing and compliance, and the welfare fraud contract with the Department of Justice. General fund increases $141,825 in fiscal 1998 and $143,937 in fiscal 1999 because of FTE transferred into this division from other areas of the department, the annualization of residential health care survey costs, and statewide present law adjustments.

State special revenue increases $214,825 in fiscal 1998 and $214,874 in fiscal 1999 primarily because of the FTE transfers in the 1999 biennium, annualization of lien and estate collection costs, and chemical dependency survey costs discussed in the present law adjustments section.

Federal funds increase $235,839 in fiscal 1998 and $237,144 in fiscal 1999 due to annualization of the lien and estate collection contract and statewide present law adjustments.

Lien and Estate Collections

SB 236, passed by the 1995 legislature, requires the department to execute a claim for payment of medicaid assistance against the estate of deceased medicaid recipients within three years of their death or three years of the final disposition of the estate, with certain exemptions. The bill also requires the department to apply recovered funds proportionately to the federal and state shares of recoverable medical assistance. The 1995 legislature accepted the executive request to reduce medicaid benefits $600,000 annually due to passage of this bill and authorized, via HB 2 language, the use of up to $1,000,000 each year of any collections exceeding $600,000 for the purpose of providing additional independent living and community-based medicaid services.

Lien and estate collections totaled $455,144 in fiscal 1996 and $296,485 has been collected through October 1996. It is likely that the $600,000 threshold will be reached in fiscal 1997.

In late fiscal 1996, the Department of Public Health and Human Services entered into a contingency contract for the lien and estate collection function. The Executive Budget proposes that a portion of lien and estate collections, 19.4 percent, be split and equal amounts deposited to a state special revenue account and the federal medicaid administration account for the purpose of paying the contingency contract. The first $600,000 of net collections would be deposited to the state general fund and federal medicaid benefits account at the prevailing federal medical assistance percentage rate. The remainder of the collections would be deposited to a state special revenue account and the federal medicaid benefits account at the prevailing federal medical assistance percentage to fund expansion of the Home and Community Based Services Waiver Program in the Senior and Long-Term Care Division.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6901 08
Department of Public Health & Human Services — Present Law Adjustments/Issues
Quality Assurance Division

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	304,916	303,153
02		Inflation/Deflation	(29)	(2,673)
03		Fixed Costs	5,979	9,147
		Total Statewide Adjustments	$310,866	$309,627
Significant Present Law Adjustments				
04	91301	Lien & Estate Collections	374,112	374,112
05	91302	Licensure Annualization	59,613	61,213
06	91303	Operational Cost Reductions	(129,691)	(128,191)
		Total Significant PL Adjustments	$304,034	$307,134
Other Base Adjustments			($22,411)	($20,807)
		Grand Total Present Law Adjustments	$592,489	$595,954

LFD Issue **- The Executive Budget includes $67,709 in fiscal 1998 and $68,159 in fiscal 1999 in the statewide personal services present law adjustments for 2.0 FTE transferred into this division from other areas of the department. This type of adjustment is not considered a statewide adjustment, and the legislature may wish to examine this adjustment separately.**

4) Lien & Estate Collections - The Executive Budget adds $374,112 in each year of the biennium ($187,056 in state special revenue authority and $187,056 in federal funds) to annualize funding for a contract assisting with lien and estate recovery. This is a contingency fee contract related to the lien and estate recovery provisions authorized by the 1995 legislature. The

expansion of the Home and Community Based Services (HCBS) Waiver Program will be funded from recovered funds, as described in the Senior and Long-Term Care Division new proposals.

LFD Comment **- For a further explanation, see the funding section.**

5) Licensure Annualization - The department requests $59,613 in fiscal 1998 and $61,213 in fiscal 1999 to annualize the cost of contracting for residential health care and chemical dependency surveys. Chemical dependency surveys are funded 50 percent by alcohol tax funds and 50 percent by federal block grant funds. Residential health care surveys are funded by general fund.

LFD Comment **- This present law adjustment is funded by alcohol tax totaling $11,177 in fiscal 1998 and $11,198 in fiscal 1999; federal alcohol block grants of $11,178 in fiscal 1998 and $11,197 in fiscal 1999; and general fund totaling $37,258 in fiscal 1998 and $38,818 in fiscal 1999. In addition to the present law adjustment identified here, the Executive Budget contains $4,032 annually funded 50 percent from alcohol tax and 50 percent from federal alcohol block grants for other chemical dependency survey operating expenses.**

6) Operational Cost Reductions - Reductions of $52,009 in equipment costs, relative to the fiscal 1996 base expenditures, are recommended each year of the biennium. In addition, the executive recommends a negative adjustment of $77,682 in fiscal year 1998 and $76,182 in fiscal year 1999 due to reduced contracted services costs.

LFD Comment **- The operational cost reductions are funded by $57,262 and $56,888 general fund in fiscal 1998 and fiscal 1999, respectively; $58,261 and $57,136 state special revenue in fiscal 1998 and fiscal 1999, respectively; and $14,168 and $14,167 federal indirect costs in fiscal 1998 and fiscal 1999, respectively.**

Other Base Adjustments - A reduction in rent costs and numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

6901 09
Department of Public Health & Human Services — **Operations & Technology Division**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	148.50	(4.50)	2.25	146.25	(4.50)	3.00	147.00	146.25
Personal Services	4,485,331	249,963	71,135	4,806,429	261,790	94,848	4,841,969	9,648,398
Operating Expenses	22,918,123	(3,101,557)	1,030,000	20,846,566	(5,185,567)	1,030,000	18,762,556	39,609,122
Equipment	278,722	190,280	2,500	471,502	(108,472)	0	170,250	641,752
Debt Service	253,922	37,159	0	291,081	11,917	0	265,839	556,920
Total Costs	$27,936,098	($2,624,155)	$1,103,635	$26,415,578	($5,020,332)	$1,124,848	$24,040,614	$50,456,192
General Fund	8,818,649	215,474	550,151	9,584,274	(605,034)	556,868	8,770,483	18,354,757
State/Other Special	3,088,866	527,371	32,065	3,648,302	133,361	39,421	3,261,648	6,909,950
Federal Special	16,028,583	(3,367,000)	521,419	13,183,002	(4,548,659)	528,559	12,008,483	25,191,485
Total Funds	$27,936,098	($2,624,155)	$1,103,635	$26,415,578	($5,020,332)	$1,124,848	$24,040,614	$50,456,192

Program Description

The purpose of the Operations and Technology Division is to provide a full spectrum of operational support services for the department, and to promote and maintain enhanced, state-of-the-art technology platforms for provision and support of PHHS programs. The division is responsible for preparation and overall management of the executive budget and budget planning, and financial and accounting services. Contracts are managed for the following four large computer systems: The Economic Assistance Management System (TEAMS), the System for Enforcement and Recovery of Child Support (SEARCHS), the Montana Medicaid Information System (MMIS), and the Child & Adult Protective Services System (CAPS). Internally developed and operated automated computer systems, telecommunications, security, and internal support services (such as purchasing, leasing, and mailroom) are also provided. Other operations include vital records and statistics, microbiology and chemistry laboratory services, and cost projections for benefit programs such as Medicaid.

The Operations and Technology Division is provided for in Title 17 and Title 40, MCA; and Title IV Social Security Act, Section 406, PL 96-265.

Funding

The Operations and Technology Division is funded through direct charges and the department-wide cost allocation plan. This results in an overall 36.5 percent general fund, 13.5 percent state special revenues, and 50 percent federal funding support. The cost allocated funding is a federally-approved plan determined by complex ratios associated with large-scale automated projects.

The funding for the SEARCHS computer system is 66 percent federal funds and 34 percent state special revenues. The MMIS system is funded with 25 percent general fund and 75 percent federal funds. Base expenditures for TEAMS are requested to be funded at 47 percent general fund, 50 percent federal funds, and 3 percent state special revenues. (TEAMS related new proposals and present law adjustments are requested to be funded at different percentages). Requested base expenditures for the CAPS system are funded at 50 percent general fund, and 50 percent federal funds (requested funding for present law adjustments vary slightly).

Laboratory Services are funded with state special revenues generated through fee-for-service activities. The Vital Statistics Bureau is funded with 44 percent general fund, 38 percent federal funds, and 18 percent state special revenues.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment - **The reduction in present law is primarily the result of the elimination of computer development costs for two systems. These reductions are partially offset by requested increases in processing costs for fiscal 1998 and fiscal 1999, as well as additional funds to compensate ISD for computer usage in 1996 that exceeded original projections. For a further description, see the LFD issue at the conclusion of this section.**

6901 09
Department of Public Health & Human Services — Present Law Adjustments/Issues
Operations & Technology Division

		Present Law Description	Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	249,963	261,790
02		Inflation/Deflation	(898,542)	(1,250,686)
03		Fixed Costs	706,038	393,550
		Total Statewide Adjustments	$57,459	($595,346)
Significant Present Law Adjustments				
04	91028	Searchs Facilities Maintenance Contract	25,608	37,807
05	91034	Caps Isd Computer Processing	723,600	583,200
06	91060	Searchs Isd Computer Processing	247,900	199,800
07	91061	Teams Isd Computer Processing	887,639	715,410
08	91171	Teams Isd Budget Billing Recovery	712,738	0
09	91172	Laboratory Equipment	191,000	39,000
10	91173	Searchs Isd Budget Billing Recovery	395,518	0
11	91910	Administrative & Equipment Adjustments	(373,504)	(533,504)
12	91930	Teams Administrative Adjustments	(4,336)	(13,829)
13	91932	Mmis Administrative Adjustments	(5,455,062)	(5,452,901)
14	91933	Caps Administrative Adjustments	(22,136)	(16,225)
15	91934	Vital Statistics Adjustments	(23,375)	(10,875)
16	91935	Laboratory Janitorial Services	14,561	14,846
		Total Significant PL Adjustments	($2,679,849)	($4,437,271)
Other Base Adjustments			($1,765)	$12,285
		Grand Total Present Law Adjustments	($2,624,155)	($5,020,332)

4) SEARCHS Facilities Maintenance Contract The Executive Budget adds $25,608 in fiscal 1998 and $37,807 in fiscal 1999 to annualize the cost of operating the System for Enforcement and Recovery of Child Support (SEARCHS) during the 1999 biennium.

5) CAPS ISD Computer Processing - The Executive Budget adds $723,600 in fiscal 1998 and $583,200 in fiscal 1999 for the Child and Adult Protective Services (CAPS) computer processing costs. Currently processing for CAPS is done on the Information Systems Division (ISD) mainframe computer in the Department of Administration (DoA), and then charged back to the department. This request provides the funding necessary to pay ISD for projected processing costs during the 1999 biennium and includes costs for Juvenile Justice, which will be transferred to the Department of Corrections during the biennium.

6) SEARCHS ISD Computer Processing - The Executive Budget adds $247,900 in fiscal 1998 and $199,800 in fiscal 1999 for SEARCHS computer processing costs. Currently processing for SEARCHS is done on the ISD mainframe computer in the DoA, and then charged back to the department. This request provides the funding necessary to pay ISD for projected processing costs during the 1999 biennium.

7) TEAMS ISD Computer Processing - The Executive Budget adds $887,639 in fiscal 1998 and $715,410 in fiscal 1999 for The Economic Assistance Management System (TEAMS) computer processing costs. Currently processing for TEAMS is done on the ISD mainframe computer in the DoA, and then charged back to the department. This request provides the

funding necessary to pay ISD for projected processing costs during the 1999 biennium.

8) TEAMS ISD Budget Billing Recovery - The Executive Budget adds $712,738 in fiscal 1998 to fund a budget-based billing agreement between the department and the DoA for TEAMS computer processing costs. During fiscal 1996, the department entered into a budget-based billing agreement with ISD, which requires the department to request funding to offset fiscal 1996 cost differentials due to differences between projected and actual usage for TEAMS.

9) Laboratory Equipment - The Executive Budget adds $191,000 in fiscal 1998 and $39,000 in fiscal 1999 to replace laboratory equipment including: the current operating systems for the two Gas Chromatography-Mass Spectrometry instruments; the Midi-Cyanide Distillation System for batch analyses of cyanide in soil and water samples; the laboratory's Autoclave sterilizing supplies; newborn screening equipment and testing methods for tests for Galactosemia and PKU screening of babies; direct gene probes for determining if a patient is positive for tuberculosis; scientific apparatuses used in CD4 and Viral Load testing to evaluate the progression of AIDS and for monitoring chemotherapy of AIDS patients; and a Gas-Chromatography Purge and Trap with a Turbo Chromatography computer system for gasoline range organics (GRO), used in the Dyed Fuel Testing Program, to analyze for GRO contamination and for spill site clean-up from soil and groundwater.

LFD Comment **- This request for equipment for the public health laboratory is funded with state special revenues, generated from fees for laboratory services, including the dyed fuel testing program. Laboratory equipment purchases totaled $2,983 in fiscal 1996, and $107,764 in fiscal 1995.**

10) SEARCHS ISD Budget Billing Recovery - The Executive Budget adds $395,518 in fiscal 1998 to fund a budget-based billing agreement between the department and the DoA for SEARCHS computer processing costs. During fiscal 1996, the department entered into a budget-based billing agreement with ISD, which requires the department to request funding to offset fiscal 1996 cost differentials due to differences between projected and actual usage for SEARCHS.

11) Administrative & Equipment Adjustments - The Executive Budget decreases by $373,504 in fiscal 1998 and $533,504 in fiscal 1999 due to: a reduction of $597,376 in contracted services for a Cadastral Global Information System (GIS) service agreement with the DoA, discontinuation of a donation to the Caring Program for Children Foundation, elimination of one-time expenditures for the Montana Health Care Information System planning project, and miscellaneous other contracts; an increase of $130,000 for contracted services to provide the department with assistance in implementing a cost-allocation plan, a random moment time-study survey, and temporary personnel services; an increase of $70,382 in fiscal 1998 and a reduction of $73,869 in fiscal 1999 for equipment to expand and upgrade computer networks in regional local offices; and an increase of $23,490 in fiscal 1998 and $7,741 in fiscal 1999 to pay debt service on a lease/purchase agreement for servers, computers, and workstations.

LFD Comment **- The described reduction of $597,376 in contracted services is comprised of: 1) Cadastral GIS Service Agreement with DoA ($20,000); 2) discontinuation of the donation ($100,000) to the Caring Program for Children Foundation; 3) elimination of the expenditures for the Montana Health Care Information System planning project ($250,000); 4) elimination of $50,000 for temporary services; and 5) elimination of $177,376 for other consulting and contracted expenditures. These services were funded with 44 percent general fund, 9.5 percent state special revenues (indirect), and 46.5 percent federal funds.**

12) TEAMS Administrative Adjustments - The Executive Budget decreases by $4,336 in fiscal 1998 and $13,829 in fiscal 1999 due to an $18,004 decrease each year in the annualized cost of operating TEAMS; and a $13,668 increase in fiscal 1998 and a $4,175 increase in fiscal 1999 for the debt service for TEAMS equipment in the field offices.

13) MMIS Administrative Adjustments - The Executive Budget decreases by $5,455,062 in fiscal 1998 and $5,452,901 in fiscal 1999 to reflect: removal of the procurement and implementation costs of $4,769,480 each year for the new Medicaid Management Information System (MMIS) which was completed in fiscal 1996; a reduction of $564,569 in fiscal 1998 and $562,408 in fiscal 1999 for annualizing the MMIS contract costs; and a reduction of $121,013 each year for equipment requirements.

14) CAPS Administrative Adjustments - The Executive Budget decreases by $22,136 in fiscal 1998 and $16,225 in fiscal 1999 to annualize the operational, development, and equipment costs for CAPS.

15) Vital Statistics Adjustments - The Executive Budget decreases by $23,375 in fiscal 1998 and $10,875 in fiscal 1999 due to: lower software development costs of $33,766 in fiscal 1998 and $21,266 in fiscal 1999; increased data entry costs of $42,834 each year, associated with the Central Tumor Registry; and a reduction of $32,443 each year in contracts to non-profit organizations.

LFD Comment **- For a discussion of this program, please see the "Program Issues" section.**

16) Laboratory Janitorial Services - The Executive Budget adds $14,561 in fiscal 1998 and $14,846 in fiscal 1999 for increased janitorial services costs for the laboratory.

Other Base Adjustments - Numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

LFD Issue **- Computer Systems - Items 4, 5, 6, 7, 8, 10, 12, 13, and 14.**

The Operations and Technology Division is responsible for agency-wide management of the four major computer systems discussed above (TEAMS, SEARCHS, MMIS, AND CAPS). These present law adjustment items can be analyzed in terms of three major categories:

> **1) requested increases due to fiscal 1996 actual computer processing costs exceeding projections made by PHHS to ISD; these increases are listed in the ISD budget billing recovery present law adjustment category and reflect an agreement between the two agencies to recoup computer processing cost overruns;**
>
> **2) computer processing cost increases for fiscal 1998 and fiscal 1999, compared to fiscal 1996 actuals; these increases are listed in the ISD computer processing present law adjustments; and**
>
> **3) decreases due to system development costs that were incurred in fiscal 1996 that are not requested for the 1999 biennium since the task has been completed (listed in the MMIS administrative adjustment present law adjustment category).**

Both the MMIS and CAPS systems were developed and implemented in fiscal 1996. Present law adjustment no. 13 decreases the Executive Budget request by $4.8 million for each year of the biennium, which equals the development cost for MMIS. This system assists in the management of the Medicaid program. The CAPS system for the child and adult protective services program was also developed and implemented during fiscal 1996 at a cost of $2.6 million. This cost compares to the total of $2.3 million appropriated for this purpose by the 1995 legislature. This cost was subtracted from the fiscal 1996 base, as directed by the 1995 legislature, and therefore is not included in the requested present law adjustments. Table 19 presents the fiscal 1996

actual costs, and requested increases for fiscal 1998 and fiscal 1999, in millions, for each of these four major computer systems. The expended system development costs, as discussed above are not included in the total amounts.

Table 19
Summary of Computer Systems' Operational Costs
(In Millions)

	FY 96	FY 98	FY 99
Teams	$6.7	$8.9	$7.8
Searchs	1.9	2.3	1.8
MMIS	4.0 *	3.2	3.2
CAPS	1.3 **	2.6	2.4
Total	$13.9	$17.0	$15.2

* Does not include $4.8 million of expended development costs.
** Does not include $2.6 million of expended development costs.

Table 20
Requested Funding Percentage Changes For Computer Systems
(Compared to FY 96)*

	FY 98	FY 99	General Fund Cost Share
Teams	17%	0.3%	45%
Searchs	21	(7)	0
MMIS	(21)	(21)	25
CAPS	94	83	51
Total of four systems (combined)	22%	9%	

Does not include requested New Proposal for Teams.

Table 20 presents the percentage changes in requested funding for each of the four systems, compared to fiscal 1996 actual expenditures (exclusive of development costs). The change in requested funding compared to fiscal 1996 actuals is also presented for all four systems (combined). The overall funding provided by the general fund is also presented.

As shown, with the exceptions of MMIS, all systems show an increase, with CAPS almost doubling in cost. Agency personnel have indicated that the dramatic cost overruns and increases in the 1999 biennium are due to a number of factors, including initial development and longer than expected processing times. They indicated that costs should not rise so dramatically in future years, as some of this increase was also due to transition from prior systems. However, the legislature may wish to have the department and the Information Services Division provide an update on this issue during the legislative session.

<u>Welfare Reform</u>

Federal welfare reform could have a significant impact on computer processing costs for SEARCHS and related databases. The legislature may wish to request that the department report on these anticipated impacts.

6901 09
Department of Public Health & Human Services **Operations & Technology Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Laboratory Scientist	0.75		27,671	27,671	1.00		33,562	33,562
02	Network & Communications Staff	1.50	20,151	25,813	45,964	2.00	26,868	34,418	61,286
03	Governor's Council on Families		30,000		30,000		30,000		30,000
04	Electronic Benefits Transfer System		500,000	500,000	1,000,000		500,000	500,000	1,000,000
	Total For New Proposals	2.25	$550,151	$553,484	$1,103,635	3.00	$556,868	$567,980	$1,124,848

Executive New Proposals

1) Laboratory Scientist - Executive Budget adds 0.75 FTE and $27,671 in fiscal 1998 and 1.00 FTE and $33,562 in fiscal 1999 for a Clinical Laboratory Scientist. This position will perform a new generation of diagnostic gene probe and polymerase chain reaction analyses. These tests are becoming standard of practice for confirmation of diagnosis for a wide variety of diseases including chlamydia, tuberculosis, and hepatitis.

LFD Comment **- This proposal is funded totally with state special revenues that are generated from fees for laboratory testing services. An associated present law adjustment (no. 9) for laboratory equipment requests $191,000 in fiscal 1998 and $39,000 in fiscal 1999. Some of the requested equipment would be utilized in the new generation tests discussed above. If the present law adjustment for the laboratory equipment is not approved, the legislature may wish to consider whether the ability of this new position to perform the stated purpose would be impacted.**

2) Network & Communications Staff - Executive Budget adds 1.50 FTE and $45,964 in fiscal 1998 and 2.00 FTE and $61,286 in fiscal 1999 to increase network communications and support staff for the department in order to support 66 networks and 3,500 microcomputers.

LFD Issue **- This proposal is funded with 44 percent general fund, 9 percent state special revenues from indirect cost allocation to agency-wide sources, and 47 percent federal funds. Under reorganization, support staff of former agencies were to be allocated to the new, reformed agencies in a manner proportional to required workloads and service demand. The 66 networks and 3,400 microcomputers are not 'new', but existed prior to reorganization. Therefore, no additional staff among the three reorganized agencies should be required to support the same level of equipment. If support was not sufficient, the executive should show that is the case. Otherwise, the legislature may wish to consider reallocating staff from the other two agencies to this program.**

3) Governor's Council on Families - The Executive Budget adds $30,000 each year of the biennium to provide support to the Governor's Council on Families. This council was created by the Governor during fiscal 1996 to create public forums to: engage all Montanans in discussions and actions that strengthen families; to advise the Governor on state policies and laws that affect families; and to facilitate the recognition and exchange of successful family strategies among Montanans.

LFD Issue **- The Executive Budget request for the Director's Office also includes a present law adjustment of $9,751 for each year of the biennium for the council. Therefore, if the legislature decides to fund this**

function, it should fund only one of the proposals. This proposal does not specify how the money will be spent. The other proposal funds travel costs for the year based upon an extrapolation of costs in fiscal 1996. This council was created by Executive Order No. 15-96 on June 25, 1996, and thus has not previously been reviewed or funded by the legislature. This proposal is totally funded with general fund.

4) Electronic Benefits Transfer System - The Executive Budget adds $1 million each year of the biennium to develop and implement an Electronic Benefit Transfer system for Food Stamps and Women and Infant Children (WIC) benefits. This will automate the issuance of these benefits through the use of smart card technology and will eventually eliminate the handling of current benefit vouchers.

LFD Issue - The Food Stamp Program (FSP) and WIC food benefits program are currently conducted by issuing benefit recipients paper coupons. The federal government is requiring that states implement an Electronic Benefit Transfer (EBT) system by October 1, 2002. EBT allows the elimination of paper coupons with an electronic transfer. This new proposal, funded with 50 percent general fund (equals $500,000 each year of the biennium) and 50 percent federal funds, would replace Food Stamp coupons with an EBT system. There are two types of EBT technologies available: 1) magnetic stripe cards; and 2) Smartcards. The department has chosen to pursue the Smartcard. The department chose this system following a pilot program with 600 Medicaid recipients.

Smartcards

The Smartcard contains computer chips that hold information regarding the recipient's identity, benefits receivable, and account balance. Retail outlets, such as all of the grocery stores in Montana, would use a terminal supplied by the state that is connected to a computer system to read the information on the card, and debit the recipient's account. After benefit "loading", recipients could shop at any qualifying grocery store to purchase food with the Smartcards. Smartcards can store large amounts of information. This technology is called 'off-line' because each transaction does not immediately connect with a computer system to process the purchase. (Periodic connections with banks and the state system are needed, at the end of the day, for example.)

PHHS officials report that they plan to ultimately store all benefit information on an individual's Smartcard, including FSP, WIC, cash assistance payments under FAIM, Medicaid, recipient's health, children's immunization records, and driver's license. PHHS officials view the ability of Smartcards to store large amounts of information, which provides future flexibility and opportunity for integration of all recipient benefits onto one card, as a major advantage compared to other available EBT technology options. They also cite decreased electronic communication costs. Due to its planned usage in multiple human service benefit programs for years to come, this proposal has far reaching future implications regarding the administrative costs of benefit delivery, recipient service, and impacts on retailer and medical provider business operations.

Scope and Future Costs - This new proposal would not fully implement EBT of WIC benefits. Due to the fact that WIC benefits are for specific food items, implementation of EBT is considered problematic, and would require additional funding in the future. Based on pilot studies conducted in other states, which are discussed in greater detail below, additional funding may be required to fully implement the FSP. (Wyoming expended $2.3 million in start up costs in one county for a Smartcard system for the FSP and WIC). EBT for FAIM and Medicaid would also require additional funding. Hence, this proposal should be evaluated in terms of an incremental step only. If the Smartcard technology of this new proposal is chosen as opposed to

EBT based on magnetic stripe card technology, Montana will be 'locked into' this type of EBT technology in the future.

Alternate EBT Technologies

An alternative form of EBT technology is based on magnetic stripe cards, such as credit cards and checking account debit cards currently used in most retail outlets. It is called 'on-line' technology because each purchase requires connection to a computer for processing. The American Public Welfare Association (APWA) reports that 47 states have chosen to implement EBT under the magnetic stripe card system. Only Montana, Wyoming, and Ohio are progressing toward Smartcard EBT technology. However, since only a small pilot study under Medicaid has been conducted in Montana, the legislature may wish to consider whether magnetic stripe EBT should be chosen rather than Smartcard EBT. A comparison of the two technologies, based on national studies and a national task force's findings, follows. Due to the newness of EBT across the nation, assessment of the potential costs and impacts of the two options is problematic, and cannot be predicted with total accuracy.

EBT vs. Coupons - Costs - As stated, provisions for EBT under federal welfare reform mandate that states implement EBT for food stamp systems by October 1, 2002 (unless waived). Systems must be cost-neutral to the federal government over the life of the program. A report prepared by the U.S. Department of Agriculture, Food and Consumer Service (USFCS), which evaluates Wyoming's pilot study to use Smartcard EBT, states that if federal payments for EBT operating costs for a seven-year period (including start-up) exceed the total federal cap amount for the period, the state is responsible for the excess. In addition, while 50 percent of EBT start-up costs are currently paid for by the federal government, the APWA reports (based on their survey of all states) that many state officials fear that federal funding support will decrease under welfare reform. Many states expressed hesitancy to move forward on EBT due to costs. In fact, pilot food stamp studies are indicating that when the costs of magnetic stripe card EBT are compared to those of existing paper coupon systems, the savings are often minimal. Four studies reported savings of 1, 3, 17, and 24 percent per recipient per month. The national Electronic Funds Transfer Association concluded that projected operating costs of EBT systems exceed costs reported for paper coupon systems. Ohio reported that Smartcard EBT costs 184 percent more than the paper coupon system's cost per month and per recipient case. Table 21 summarizes these findings. (Pilot study researchers anticipated decreased per recipient costs when applied to a larger population of card users.) Federal law requires that the state provide food retailers, regardless of size, with the necessary equipment. Given the tenuous nature of cost savings under EBT, technology choices can have significant fiscal impact.

Table 21
Impact of EBT Systems on Food Stamp Issuance Costs
Per Case Month

Smartcard System	Paper Cost of Coupons	EBT Cost	Difference	Percent Change
Ohio	$2.89	$8.21	$5.32	184
Magnetic Card System				
New Mexico	$4.04	$3.07	($0.97)	(24)
Ramsey County, MN	4.53	4.38	(0.15)	(3)
Maryland (statewide)	3.89	3.85	(0.04)	(1)
Maryland (FSP only)	4.71	3.92	(0.79)	(17)

Impacts on Retailers - The potential impacts of magnetic stripe versus Smartcard EBT upon retailers and health care providers in Montana are great. Wyoming recently conducted a Smartcard one-county, pilot study for the FSP and WIC. Retailers expressed resistance to a new terminal/computer/electronic transfer system that did not make use of the existing

electronic commercial transaction system and infrastructure for credit and bank debit cards. This resistance was encountered even given the fact that the state would supply the terminals and computers. Factors listed included: 1) the loss of valuable checkout counter space; 2) incompatibility with other banking and card systems such that the terminals could not be used for commercial transactions; 3) incompatibility between states (for example, current technology restrictions dictate that a given manufacturer's Smartcard be used in that manufacturer's terminal); 4) fear of delay if the system fails; 5) training needs; 6) delays due to usage; 7) fear that other associated equipment and systems would have to conform to the Smartcard technology without governmental reimbursement for their costs; and 8) fear of customer lawsuits due to claims of stigmatization as a result of their use of a different terminal than commercial customers.

A national public-private task force sponsored by the Electronic Funds Transfer Association recommended that all transaction processing for EBT systems should be on-line (i.e. magnetic stripe cards) rather than off-line (Smartcards). The report stated: "...the Task Force strongly recommends that EBT be piggybacked on existing commercial point-of-sale/automatic teller machine (ATM) networks, to the extent possible" as opposed to usage of a new network under Smartcards. As to the merits of a Smartcard-based approach, the task force concluded that "retailers and government would obviously incur major added costs in the development and placement of new software and terminals." They stated that existing electronic fund transfer systems cannot accommodate the Smartcard without significant additional cost.

Dynamics

A final identified issue regarding Smartcard technology is that it is a rapidly developing, changing, and unstandardized field. For example, as mentioned under retailer concerns, a given manufacturer's Smartcard can only be used in their terminal. These technology limitations are contrasted with magnetic stripe cards, which are issued by multiple suppliers but work in ATM machines throughout the nation. Although Smartcards hold great promise for future financial transactions, the current financial and retailer networks rely on magnetic stripe cards.

The major points of the issues involved in evaluating Smartcard versus magnetic stripe card EBT technologies are summarized below. Generalizations are based on the limited information available from pilot studies and one task force's findings.

Table 22
Comparison of Smartcards to Magnetic Stripe Cards for EBT

Smartcards	Magnetic Stripe Cards
Would probably cost more than magnetic stripe cards	Would probably cost less than Smartcards
More information stored	Less informaiton stored
Flexible and expandable	Less flexible and expandable
Requires new infrastructure (i.e. terminals)	Uses existing infrastructure
Not readily acceptable by retailers/providers	More acceptable to retailers/providers
Not a well standardized technology	Well standardized technology
Not recommended by Electronic Funds Transfer Association	Recommended by Electronic Funds Transfer Association
Advanced technology	Current technology
Selected by 3 states for EBT	Selected by 47 states for EBT
Questionable if federal cost-neutrality criteria can be met	Questionable if federal cost-neutrality can be met, but less so
Not an 'open' system that can work with cards of multiple manufacturers	An open system
Challenges state to conform system development to evolving technology	State less challenged in conforming to technology requirements since they are well established
Recipients may feel stigmatized in using a terminal different from commercial transactions	Lessened stigmatization potential

The legislature may wish to pose the following questions to the department concerning their decision to pursue the Smartcard:

1) what will be the future costs of the system?
2) what future cost savings will be realized due to increased efficiencies and better service provision?
3) how do the benefits of using Smartcards compare to the additional costs when compared with magnetic stripe cards?
4) what level of retailer resistance is expected and how will it be overcome?
5) how will the added cost to retailers be covered and by whom?
6) how will WIC benefits be recorded?
7) how will Montana exchange information with other states using different technologies?

Options

1) Approval of the new proposal for Smartcard EBT system development.

2) Approval of EBT system development based on magnetic stripe cards.

3) Funding for an investigation of EBT systems, with a recommendation to be made to an interim legislative committee.

4) No action.

Program Issue

Central Tumor Registry

Montana spends $56,000 per year of general fund to maintain a centralized registry of tumor occurrence and treatment efficacy. The majority of these expenditures are used to support the 1.5 FTE positions needed to process the written reports filed by Montana hospitals. The personnel responded to 46 requests for the information in fiscal 1996. The federal government also utilizes the information. The legislature may wish to consider whether continued direct state support is necessary.

After considerable discussion, the 1995 legislature accepted an executive new proposal that added $260,000 of federal funds during the 1997 biennium to establish a new computerized reporting system between Montana hospitals and a nationwide tumor registry, and to provide technical training to hospital staff. (Hospitals and clinical laboratories are required to report tumor occurrences per 50-15-703, MCA.) The Vital Statistics Bureau of PHHS is requesting $340,000 of federal spending authority during the 1999 biennium to continue the third and fourth years of the federal computerization enhancement grant, which is planned to be five years in duration. This automation should create a 'paper-less' computerized network, reducing or eliminating the need for the processing of written documents currently performed by agency staff.

There is no federal mandate to maintain the registry. However, there is an expectation. Past acceptance of federal funds to computerize the registry precludes the ability to charge a user fee to federal agencies. The other 46 requestors of the information primarily consisted of individuals, hospitals, universities, and state agencies. The general fund cost to maintain the registry equaled $1,450 per informational request (exclusive

of the federal government) in fiscal 1996. State special revenues, generated by the assessment of a user fee upon requestors other than federal and state agencies, could be used to offset general fund expenditures.

Computerization of the tumor registry has provided an opportunity for potential privatization of its service. Users of the information (including the federal government) could access the information by contacting the governmental contractor hired to maintain the national registry. Users would probably be charged a fee by the private supplier.

The legislature may wish to consider whether:

a) the 'paper-less' computerization should result in a reduction in the program's current FTE level;

b) the limited number of users of the data warrants the cost of the current FTE level, or whether a user fee might be charged by PHHS for the service; and

c) the new, nationwide, automated database can provide federal and other users with the information, thereby providing for privatization of the service, and reducing or eliminating the need for continued general fund support.

6901 10

Department of Public Health & Human Services — **Disability Services Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	662.78	(27.30)	3.38	638.86	(27.30)	4.50	639.98	638.86
Personal Services	20,271,819	(182,414)	101,557	20,190,962	(119,055)	135,246	20,288,010	40,478,972
Operating Expenses	3,912,274	721,161	0	4,633,435	963,578	0	4,875,852	9,509,287
Equipment	217,470	(77,141)	0	140,329	(97,973)	0	119,497	259,826
Grants	19,714	(19,714)	19,714	19,714	(19,714)	19,714	19,714	39,428
Benefits and Claims	51,966,881	4,553,479	2,554,358	59,074,718	4,563,480	3,922,822	60,453,183	119,527,901
Transfers	13,990	(13,990)	0	0	(13,990)	0	0	0
Debt Service	17,100	0	0	17,100	0	0	17,100	34,200
Total Costs	$76,419,248	$4,981,381	$2,675,629	$84,076,258	$5,276,326	$4,077,782	$85,773,356	$169,849,614
General Fund	36,892,957	1,362,065	1,266,760	39,521,782	1,158,963	2,222,296	40,274,217	79,795,999
State/Other Special	274,665	(7,662)	(177,829)	89,174	(8,323)	(177,829)	88,513	177,686
Federal Special	39,251,626	3,626,978	1,586,698	44,465,302	4,125,686	2,033,315	45,410,627	89,875,929
Total Funds	$76,419,248	$4,981,381	$2,675,629	$84,076,258	$5,276,326	$4,077,782	$85,773,356	$169,849,614

Program Description

The Disability Services Division assists Montanans with disabilities in living, working, and participating in their communities. Vocational rehabilitation and blind/low vision services are provided to persons with physical or mental disabilities of employable age to restore them to gainful employment in accordance with Title 53, Chapter 7, MCA and 29 U.S.C. 721, et seq.

The Disability Determination Bureau adjudicates medical claims for persons who apply for benefits under Social Security Disability Insurance (SSDI) and/or Supplemental Security Income (SSI) under Title II and Title XVI of the Social Security Act. SSDI provides cash benefits to those qualified dependents who have contributed to the social security trust fund through taxes on their earnings. SSI provides a minimum income level for financially needy persons who are aged, blind or disabled. (This bureau does not administer the benefit payment program.) DDS is mandated by the federal government under Title II and XVI of the Social Security Act (42 U.S.C. Section 1300).

The Developmental Disabilities (DD) Program contracts with private not-for-profit agencies to provide services as allowed by Title 53, Chapter 20, MCA, including evaluation and diagnosis, family education and support, respite care, residential living, vocational/day services, case management services, and transportation.

The Montana Developmental Center (MDC) in Boulder and Eastmont Human Services Center (EHSC) in Glendive, an extension of the MDC, provide residential care, treatment, training, and necessary medical treatment to individuals with serious developmental disabilities to help them develop, maintain, and improve individual skills so they can function as independently as possible. Both MDC and EHSC are authorized under Title 53, Chapter 20, MCA, which details procedures and basic guidelines for care, treatment, and training.

The Developmental Disabilities Planning and Advisory Council (DDPAC), administratively attached to the division, provides advice to the Governor's Office, other governmental agencies, and organizations on services for persons with developmental disabilities. DDPAC also provides start-up funds. It is provided for in 53-20-206 and 2-15-2204, MCA, and federally mandated under 42 U.S.C., Chapter 75, Section 6602.

Funding

The Disability Services Division is funded with 47 percent general fund, 52.9 percent federal funds, and 0.1 percent state special revenues. Two programs, Disability Determination Services and DDPAC, are totally funded with federal funds. The MDC and EHSC are funded primarily with general fund. The Vocational Rehabilitation (VR) and Developmental Disabilities programs are funded with a mixture of state general fund and federal grants, with a small amount of state special revenue from various sources, including Workers' Compensation Insurance. Vocational Rehabilitation is funded with 24.5 percent general fund in fiscal 1998 and 24.7 percent general fund in fiscal 1999. Section 110 federal funds are a major source of funding for the VR program. The Developmental Disabilities program is funded with 41 percent general fund in fiscal 1998 and 41.2 percent general fund in fiscal 1999. Table 23 presents an analysis of general fund and total funding for the six programs within this division.

Table 23
Funding Breakdown for Disability Services Division
Major Programs within the Division

	Fiscal 1996		Executive 1998		Executive 1999	
Category	General Fund	Total	General Fund	Total	General Fund	Total
Developmental Disabilities	$19,051,795	$45,588,039	$21,091,292	$51,481,307	$21,697,893	$52,641,226
Vocational Rehabilitation	2,695,245	12,693,912	3,427,784	13,987,845	3,507,464	14,214,505
MDC	11,634,075	11,684,542	11,455,559	11,499,573	11,503,005	11,547,019
EHSC	3,511,842	3,512,242	3,547,147	3,548,070	3,565,854	3,566,777
Disability Determination	0	2,655,778	0	3,159,702	0	3,404,210
DDPAC	0	284,735	0	399,761	0	399,619
Total	$36,892,957	$76,419,248	$39,521,782	$84,076,258	$40,274,216	$85,773,356

Social Services Block Grant (Title XX) Reduction Overview

In the fall of 1995, the Developmental Disabilities Program implemented, at the direction of the 1995 legislature, an increase in direct care salaries and an increase in staffing in community group homes in the contracted non-profit corporations. The staff salary increases were directly funded by the legislature. The funding for the increased staff was the result of refinancing with Medicaid (Title XIX) as provided in legislation (please see item 6 under present law narrative).

In the spring of 1996, the program received notification of a reduction in federal Social Services Block Grant (Title XX) funding totaling $1,357,047 for benefits and operating costs (please see item 14 under present law narrative). The department developed plans to handle this funding shortfall. The department delayed part of the implementation of the planned movement of individuals from the Montana Developmental Center and the expansion of supported living and work services to additional persons as approved by the 1995 legislature (please see items 7 and 8 under present law narrative.) These changes produced some savings for fiscal 1997. In addition, the department pursued additional Medicaid refinancing to further offset the Title XX reductions. The majority of the reduced Title XX funding was replaced through the Medicaid refinancing.

An additional $356,022 in general fund is necessary to return the funding level approved by the 1995 legislature (please see item 23 under present law narrative).

LFD Issue **- For further discussion of this federal funding reduction, see the program issue entitled, "Title XX Reductions and Requested Present Law Adjustments".**

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment **- The Executive Budget reduction in the area of personal services is the result of the present law adjustments of 27.3 fewer FTE for the division. These FTE reductions occurred as a result of 1995 legislative reductions that did not take place until part way through the 1997 biennium. For a further discussion, see the program issue entitled, "FTE Allocation within the Division".**

6901 10

Department of Public Health & Human Services Disability Services Division Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(182,414)	(119,055)
02		Inflation/Deflation	45,871	81,553
03		Fixed Costs	21,468	22,475
		Total Statewide Adjustments	($115,075)	($15,027)
Significant Present Law Adjustments				
04	91017	Fiscal 1997 Vr Provider Rate Annualizatio	197,554	197,554
05	91018	Annualize Fiscal 1996 Pd Waiver	95,828	95,828
06	91023	Annualize Fiscal 1996 Ddp Services	2,317,737	2,317,737
07	91029	Annualize Fiscal 1996 Services Startup	318,435	318,435
08	91032	Fiscal 1997 Dsd Expansion Commitments	898,587	898,587
09	91035	Extended Employment Annualization	46,125	46,125
10	91037	Fiscal 1997 Ddp Provider Rate Increase	584,850	584,850
11	91038	Montech Grants Increase	66,072	66,072
12	91040	Jtpa Grant Elimination	(248,988)	(248,988)
13	91041	Ddpac Grant Annualization	117,418	117,028
14	91047	Dd Federal Grant & Admin Adjustments	(345,599)	(345,599)
15	91050	Dds Medical Consulting & Services	313,662	504,183
16	91080	Goods For Resale	5,000	5,000
17	91085	Independent Living Grant Increase	32,129	32,129
18	91175	Supported Employment Grant	12,501	12,501
19	91200	Fully Match Section 110 Federal Grant	555,908	555,908
20	91201	Mdc - Maintain Current Services	234,580	234,580
21	91202	Ehsc Pharmacy Grant	5,000	5,000
22	91203	Fiscal 1997 Direct Care Salary Annualizat	600,471	600,471
23	91204	Title Xx Reductions	(761,875)	(761,875)
		Total Significant PL Adjustments	$5,045,395	$5,235,526
Other Base Adjustments			$51,061	$55,827
		Grand Total Present Law Adjustments	$4,981,381	$5,276,326

4) Fiscal 1997 VR Provider Rate Annualization The Executive Budget adds $197,554 each year of the biennium to annualize the fiscal 1997 rate increase authorized by the 1995 legislature for rehabilitation and blind/low vision service providers.

LFD Comment **- This adjustment is funded with 23.29 percent general fund (equals $46,011) and 76.71 percent federal funds (equals $151,543) for each year of the biennium. All of the expenditures are for client benefits, with 88 percent occurring in the area of rehabilitation services. The remainder is devoted to job training, extended employment, and visual medical services. The 1995 legislature gave Rehabilitation and Blind/Low Vision Services a provider rate increase of 1.5 percent for each year of the 1997 biennium. This adjustment adds the fiscal 1997 expenditures into the base for the 1999 biennium.**

5) Annualize Fiscal 1996 PD Waiver - The Executive Budget adds $95,828 each year of the biennium to annualize the cost for those people who transferred to this division from the Medicaid Waiver for people with physical disabilities (PD) in the Senior and Long-Term Care (SLTC) Division. The option for an individual to transfer was required by the federal government. The offsetting reduction resulting from this transfer is shown in the SLTC Division budget.

LFD Comment **- This adjustment is funded with 29.83 percent general fund (equals $28,585) and 70.17 percent federal funds (equals $67,243) in fiscal 1998; and 28.88 percent general fund and 71.12 percent federal funds in fiscal 1999. The federal funds are from Medicaid, where the cost share percentages require a 29.83 percent state match in fiscal 1998, and a 28.88 percent match in fiscal 1999. All expenditures are in the area of client benefits. The entire amount for the PD waiver transfer was provided for by the 1995 legislature, and included in the program budget. However, transfers of individuals occurred at various times during fiscal 1996. This adjustment accounts for this fact, and annualizes the costs.**

6) Annualize Fiscal 1996 DDP Services - The Executive Budget adds $2,317,737 each year of the biennium to annualize the contract amendments for developmental disabilities services which were implemented partway through fiscal 1996. The current level services were refinanced with Medicaid funding in part due to the Title XX federal funding reductions. (Please see the discussion of Title XX reductions at the beginning of the division narrative.)

LFD Comment **- This adjustment annualizes the cost of contracts with the providers of service for the developmentally disabled. The funding reflects an increase in federal Medicaid funds ($2,317,737), and a reduction in general fund ($373,381 in fiscal 1998 and $409,816 in fiscal 1999). For a discussion of this and other present law adjustments in relationship to the division's Title XX federal funding reduction, see the program issue entitled, "Title XX Reductions and Requested Present Law Adjustments."**

7) Annualize Fiscal 1996 Services Startup - The Executive Budget adds $318,435 each year of the biennium to annualize expansion of services and other amendments which were scheduled to begin in fiscal 1996. Due to reductions in Title XX federal funding, startup of these services was delayed until fiscal 1997. (Please see the discussion of Title XX reductions at the beginning of the division narrative.)

LFD Comment **- This adjustment is funded with 75.8 percent general fund (equals $241,248) and 24.2 percent federal Medicaid funds (equals $77,187) in fiscal 1998. Fiscal 1999 funding is 75.4 percent general fund and 24.6 percent federal funds. Expenditures are for client benefits. The delayed startup services, to be funded with this adjustment, are supported living services for developmentally disabled individuals. For a discussion of this and other present law adjustments in relationship to the division's Title XX federal funding reduction, see the program issue entitled, "Title XX Reductions and Requested Present Law Adjustments."**

8) Fiscal 1997 DSD Expansion Commitments - The Executive Budget adds $898,587 each year of the biennium to provide funding for: 12 individuals transferring from the Montana Developmental Center into community-based services; additional supported-living services for 10 individuals in fiscal 1997; 10 additional supported-work opportunities in fiscal 1997; and the transfer of one additional individual from the Physically Disabled (PD) Waiver to the Developmental Disabilities Program during fiscal 1997. Due to reductions in Title XX federal funding, startup of these services was delayed until late fiscal 1997. (Please see the discussion of Title XX reductions at the beginning of the division narrative.)

LFD Comment **- This adjustment is funded with 42.0 percent general fund (equals $377,653) and 58 percent federal Medicaid funds (equals $520,934) in fiscal 1998. Fiscal 1999 funding is 41.2 percent general fund and 58.8 percent federal funds in fiscal 1999. Expenditures are for client benefits. These expenditures were delayed until fiscal 1997, and were not included in the fiscal 1996 base. For a discussion of this and other present law adjustments in relationship to the division's Title XX federal funding reduction, see the program issue entitled, "Title XX Reductions and Requested Present Law Adjustments."**

9) Extended Employment Annualization - The Executive Budget adds $46,125 each year of the biennium to annualize the expansion of extended employment services for individuals on the waiting list. This expansion was approved by the 1995

legislature, which allowed some individuals to be phased into services in fiscal 1996 and the remainder in fiscal 1997.

LFD Comment **- This adjustment is in the vocational rehabilitation area and is funded with 100 percent general fund. The additional request equals the difference between fiscal 1997 budget amounts and 1996 actual expenditures.**

10) Fiscal 1997 DDP Provider Rate Increase - The Executive Budget adds $584,850 each year of the biennium to annualize the cost of the Developmental Disabilities Program provider rate increase approved by the 1995 legislature.

LFD Comment **- This adjustment is funded with 65.4 percent general fund (equals $382,345) and 34.6 percent federal Medicaid funds (equals $202,505) in fiscal 1998. Fiscal 1999 funding is 64.9 percent general fund and 35.1 percent federal funds. Expenditures are for benefits. A 1.5 percent provider rate increase was appropriated for fiscal 1997. This adjustment adds this rate increase to the base for the 1999 biennium.**

The 1997 biennium provider rate increase was funded with 63.9 percent general fund, and 36.1 percent federal funds.

11) Montech Grants Increase - The Executive Budget adds $66,072 each year of the biennium for the increase in the Montech benefits grant award for assistive technology devices for individuals with disabilities.

LFD Comment **- This adjustment in the vocational rehabilitation area is funded entirely with federal funds.**

12) JTPA Grant Elimination - The Executive Budget decreases by $248,988 each year of the biennium to reflect elimination of a vocational rehabilitation grant which was funded through the Job Training Partnership Act (JTPA) funding.

LFD Comment **- This adjustment represents a reduction of $248,988 in federal funds which are no longer available to the vocational rehabilitation program. Ninety-four percent of the funds had been expended on client benefits.**

13) DDPAC Grant Annualization - The Executive Budget adds $117,418 in fiscal 1998 and $117,028 in fiscal 1999 to annualize funding for the Developmental Disabilities Planning and Advisory Council (DDPAC) federal grant.

LFD Comment **- All of this increase is federally funded. The DDPAC awards grants to providers of developmental disability services.**

14) DD Federal Grant & Admin Adjustments - The Executive Budget decreases by $345,599 each year of the biennium to reflect the elimination of a grant in fiscal 1997; completion of an Office of Public Instruction (OPI) program for children with developmental disabilities in fiscal 1996; and the shift of funding for the Developmental Disabilities conference from federal revenue to state special revenue funding.

LFD Comment **- All of these reductions are in federal funds, 90 percent of which occurred in the Respite Grant.**

15) DDS Medical Consulting and Services - The Executive Budget adds $313,662 in fiscal 1998 and $504,183 in fiscal 1999 for increased medical consultant services and added costs for copies of medical records and medical examinations for disability clients. The department is projecting a 14 percent increase in cases that have cleared through Disability Determination Services (DDS) and are mandated by federal regulations to be reviewed.

LFD Comment **- This adjustment is 100 percent federally funded, and is required due to new federal mandates for case review. Eighty percent of expenditures are for increases in operating expenses in the area of fees for medical records and medical examinations for individuals claiming to have a disability. The remaining 20 percent of expenditures are budgeted for contracted professional services.**

16) Goods For Resale - The Executive Budget adds $5,000 each year of the biennium to allow increased purchases for the client vocational program.

LFD Comment **- This adjustment is funded with state special revenues from the sale of merchandise.**

17) Independent Living Grant Increase - The Executive Budget adds $32,129 each year of the biennium to fully match the independent living grant which provides services to individuals who have a severe physical or mental disability that poses a barrier to living independently in the family home and/or community.

LFD Comment **- Funding is 10 percent general fund (equals $3,213) and 90 percent federal funds (equals $28,916) in each year of the biennium. Expenditures are for benefits for clients at the four independent living centers in Montana (Billings, Missoula, Great Falls, and Helena). The adjustment adds fiscal 1997 authorized expenditure levels into the base to maintain the current level of services, and is part of the vocational rehabilitation program.**

18) Supported Employment Grant - The Executive Budget adds $12,501 each year of the biennium to increase federal funding used to provide services to severely disabled people who require a limited amount of ongoing support to maintain employment in a regular job setting. The requested increase restores funding to the fiscal 1997 level.

LFD Comment **- Funding is 100 percent federal, and expenditures are budgeted for client benefits. The adjustment, in the vocational rehabilitation program, adds fiscal 1997 authorized expenditure levels into the base to maintain the level of services authorized by the legislature for that year.**

19) Fully Match Section 110 Federal Grant - The Executive Budget adds $555,908 each year of the biennium to allow vocational rehabilitation to fully match the available federal grant for meeting the needs of disabled persons, with a particular focus on those clients who are severely disabled.

LFD Comment **- This adjustment in the vocational rehabilitation program is funded with 21.3 percent general fund (equals $118,408) and 78.7 percent federal funds (equals $437,500) for each year of the biennium. Expenditures are budgeted for benefits. The services to be funded comprise four main categories: 1) greater coordination and planning between schools, parents, and students with disabilities and those requiring vocational rehabilitation; 2) increased referrals and vocational rehabilitation for these students; 3) anticipated increased caseloads due to more individuals seeking vocational rehabilitation; and 4) an estimated 10 percent for increased administrative costs.**

20) MDC-Maintain Current Services - The Executive Budget increases $234,580 each year of the biennium for added operational costs to maintain solid waste disposal, water and sewer, laboratory, and laundry services at the MDC.

LFD Comment **- This adjustment is funded with general fund and consists of increased costs in the following areas at the MDC: 1) $50,000 per year for solid waste disposal due to closure of the Jefferson County landfill; 2) $20,500 per year due to conversion of the new MDC facility to the City of Boulder's public water system and waste water treatment facility, rather than usage of outdated older units at the old MDC facility; 3) $7,000**

per year for contracted laboratory services upon closure of the MDC laboratory; 4) $142,080 per year for laundry services provided by the Montana State Prison rather than MDC on-site services; and 5) $15,000 per year for contracted fire alarm and sprinkler maintenance services for the new facility.

***LFD Issue* - According to budget documents submitted by Montana State Prison, rates for the provision of laundry services are to remain stable from fiscal 1996 to fiscal 1999.**

21) EHSC Pharmacy Contract - The Executive Budget adds $5,000 each year of the biennium to fund increased costs in over-the-counter and prescription drugs for residents at the Eastmont Human Services Center (EHSC).

***LFD Issue* - This adjustment is funded with general fund. Prior to October 1, 1995 EHSC contracted with a local pharmacy to provide these services for the residents. EHSC was then incorporated into the contract the state has established with HPI, Inc. Based on actual expenditures, it is anticipated that the costs to EHSC will increase $5,000 per year. Agency officials indicate that this increase is due to the fact that although the overall contract with HPI, Inc. for state institutions' pharmacy needs provides cost savings on an overall state-wide basis, low volume institutions are experiencing some cost increases. The legislature may wish to request that PHHS evaluate the feasibility of an option allowing 'opting-out' of the HPI, Inc. contract under such circumstances.**

22) Fiscal 1997 Direct Care Salary Annualization - The Executive Budget adds $600,471 each year of the biennium to annualize the funds authorized by the 1995 legislature for salary increases for developmental disabilities providers direct care employees.

***LFD Comment* - This increase is funded with a mixture of general fund (62.35 percent in fiscal 1998 and 61.84 in fiscal 1999) and federal Medicaid funds (37.65 percent in fiscal 1998 and 38.16 percent in fiscal 1999). The increase adds the funding for fiscal 1997 direct care salary increases for employees of disability service contractors into the base for the 1999 biennium. Language adopted by the 1995 legislature specified that a portion of the appropriated provider rate increase be allocated to the salaries of the lowest-wage, direct-care line workers.**

23) Title XX Reductions - The Executive Budget decreases $761,875 each year of the biennium to reflect a decrease of $1,117,897 in federal funding provided to the Developmental Disabilities Program from the Social Services Block Grant (Title XX) and an increase of $356,022 in general fund each year as a partial offset for the federal reduction. The balance of the reduction is mitigated by refinancing services through Title XIX (Medicaid). This request, along with the Title XIX refinancing, and the present law adjustments listed above comprise the funding necessary to maintain services at the level authorized by the 1995 legislature. (Please see discussion of Title XX cuts at the beginning of the division narrative.)

***LFD Issue* - This present law adjustment equals an increase of $356,022 in general fund support, and a reduction of $1,117,897 in the federal Social Services Block Grant (Title XX) benefits. This Title XX benefits program contains the majority of funding to provide community services to individuals with developmental disabilities who are not Medicaid eligible. The services are provided through contracts with private non-profit corporations. Services include work/day, transportation, residential family education and support, and supported living services. The majority of Title XX funds are allocated to the DD program.**

Although highly speculative in nature due to the uncertainties of the federal budgeting process, agency officials indicate that further cuts are not anticipated until the year 2001. In fiscal 1996, federal Title XX funds equaled 19.8 percent of the DD program budget. If future reductions are realized, the agency director has

indicated that the agency would apportion the reductions to other divisions within PHHS and transfer funds from those programs to the DD program. For a related discussion of this and other present law adjustments, see the program issue entitled, "Title XX Reductions and Requested Present Law Adjustments."

Other Base Adjustments - Numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

6901 10
Department of Public Health & Human Services **Disability Services Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Increased Federal Authority			1,000,000	1,000,000			1,000,000	1,000,000
02 Ds Provider Rate Increase		446,925	287,904	734,829		894,167	586,533	1,480,700
03 Ds Tuition Increase		27,652	102,168	129,820		56,537	208,893	265,430
04 Community Living&Work Slots		512,267	10,622	522,889		983,484	29,605	1,013,089
05 Dd Conference Funding Change			19,714	19,714			19,714	19,714
06 Switch		197,543	(197,543)			197,543	(197,543)	
07 Building System Capacity-Emergency Needs		49,762	117,058	166,820		47,249	116,354	163,603
08 Ehsc Certification Requirement	1.13	32,611		32,611	1.50	43,317		43,317
09 Disability Determination Staff	2.25		68,946	68,946	3.00		91,929	91,929
Total For New Proposals	3.38	$1,266,760	$1,408,869	$2,675,629	4.50	$2,222,296	$1,855,486	$4,077,782

Executive New Proposals

1) Increased Federal Authority - The Executive Budget adds $1 million each year of the biennium in federal spending authority to continue the past practice of allowing the Developmental Disabilities Program (DDP) to pursue additional federal revenue and use it to expand services, provided the additional funding does not make an additional commitment of general fund.

LFD Issue **- This request for additional federal spending authority has been approved in the past by the legislature with the requirement that an additional increased commitment of general fund would not result. The legislature may wish to include language in HB 2 to that effect. All of the expenditures are budgeted for social assistance. The legislature may also wish to inquire into the agency's specific plans for the expansion of services, and determine if they concur with the priorities of resource allocation. Agency officials indicate the general uses would be: 1) access additional grant funds; 2) provide services to individuals ineligible for other benefits; and 3) address crisis situations.**

2) DS Provider Rate Increase - The Executive Budget adds $734,829 in fiscal 1998 and $1,480,700 in fiscal 1999 for a 1.5 percent provider rate increase for disability services providers.

LFD Comment **- The indicated annual increase is 1.5 percent per year, and is allocated between the vocational rehabilitation program (10.63 percent) and the developmentally disabled program (89.37 percent). The vocational rehabilitation program and blind/low vision services use about 2000 different providers dealing**

with rehabilitation, educational (included in new proposal number 3), and medical/prosthetic appliance dealers. The developmental disabilities program uses about 52 different providers, the majority of which are non-profit corporations. This new proposal is funded with 60.8 percent general fund in fiscal 1998 and 60.4 percent in fiscal 1999. The remainder of the funding is from federal sources.

3) DS Tuition Increase - The Executive Budget adds $151,457 in fiscal 1998 and $309,668 in fiscal 1999 to fund a tuition increase for vocational rehabilitation services, which is consistent with the recommended Montana University System increase of six percent.

LFD Issue **- The requested tuition increase equals 7 percent of fiscal 1996 expenditures, rather than 6 percent. Since the executive accepted a 6 percent tuition increase for the Montana University System, and agency officials were unaware of any additional tuition surcharges, the requested amount is inconsistent with other tuition increases. The correct amounts at a 6 percent tuition rate increase are $129,820 in fiscal 1998 and $265,430 in fiscal 1999.**

4) Community Living and Work Slots - The Executive Budget adds $522,889 in fiscal 1998 and $1,013,089 in fiscal 1999 for additional funds to support independent living and for supported-living and work opportunities. These increases provide additional services to individuals on waiting lists who currently are not receiving services, or are receiving services which are not adequate to meet their needs.

LFD Comment **- This proposal is funded with 98 percent general fund in fiscal 1998 and 97 percent general fund in fiscal 1999. Expenditures are in the DD and VR programs. The funds would be allocated as follows: $228,768 per year to three Independent Living Centers (ILC) to strengthen their network of centers; and $294,121 in fiscal 1998 and $784,321 in fiscal 1999 to provide supported living and work opportunities to individuals on the waiting list.**

The VR funds are planned to be allocated to the North Central ILC, the Living Independently for Today and Tomorrow (LIFTT) ILC of Yellowstone and surrounding counties, and the Montana Independent Living Project (MILP) ILC of Broadwater, Granite, Meagher, Park, and Powell counties. The fiscal budgeted allocation would be $106,650, $106,650, and $15,468, respectively, for each year of the biennium. The North Central ILC intends to establish a satellite office in Glasgow to provide and expand services to residents within the rural northeast hi-line counties. LIFTT's intention is to establish a satellite office in Glendive to serve 11 surrounding counties, as well as the Crow and Cheyenne Indian Reservations. MILP plans to hire a part-time specialist to cover under served counties.

The DD program's requested increases of $294,121 and $784,321 are for supported living and work opportunities to additional individuals who are waiting for these services to become available. As of March 1996, 798 individuals were waiting for either supported living or work/day services, and 399 people were waiting for both services. Of these individuals, 336 do not receive any program services. Each year, on average, an additional 40 students graduate and request these services. Agency officials indicate that 15 additional people would be served in fiscal 1998, and 25 additional people in fiscal 1999 (for a total of 40) with these requested funds.

5) DD Conference Funding Change - The Executive Budget adds $19,714 each year of the biennium in state special revenue authority and reduces a like amount of federal authority for the funding of the Developmental Disabilities (DD) Conference. The funds will come from registration fees and from donations and are more appropriately recorded in state special revenue.

LFD Comment - This adjustment does not request an increase in expenditures above fiscal 1996 amounts.

6) Workers' Comp Fund Switch - The Executive Budget adds $197,543 in general fund each year of the biennium to replace Workers' Compensation funds which historically have been used to provide state match for the Section 110 grant in the Vocational Rehabilitation (VR) Program. However, several changes to the program and a recent court decision impact the availability of these funds as match. An initiative to switch the state match from Workers' Compensation funds to general fund was approved by the legislature for the 1995 biennium and this initiative would complete the transition.

LFD Issue - This request would replace state special revenues (Workers' Compensation insurance funds) with general fund. The request for the funding switch is the result of a Supreme Court decision during 1996 that made it possible for individuals who were disabled as a result of an industrial accident to receive workers' compensation (WC) benefits without applying, or being eligible for vocational rehabilitation services. In the past, the vocational rehabilitation program provided this service, receiving WC funds, and used these WC funds to match federal funds. In the past, $3.69 of federal funds were gained by the program for every $1 of WC fund. This general fund would be used to match the federal funds.

This funding shift will probably result in a shift in the type of client served. Agency officials anticipate offsetting increases in non-WC cases due to welfare reform's time limitations and emphasis on returning individuals to work. Thus, this new proposal is assuming that the total caseload numbers will remain the same in the VR program, although the proportion of WC versus non-WC cases is expected to change. At the time of the writing of this report, agency officials were not able to estimate the impact on caseloads. The legislature may wish to inquire as to: 1) caseload projections of WC reductions versus non-WC caseload increases in order to verify the need for the requested level of funding; and 2) whether increased reliance on general fund is anticipated for future biennia.

7) Building System Capacity-Emergency Needs - The Executive Budget adds $166,820 in fiscal 1998 and $163,603 in fiscal 1999 to provide funding for preventing crisis situations by building system capacity to respond to emergency needs.

LFD Comment - This request is funded with 29.8 percent general fund in fiscal 1998 and 28.9 percent in fiscal 1999. Medicaid funds provide the federal match. Expenditures are budgeted for benefits in the developmental disability program, and would provide the following: 1) the ability for individuals with developmental disabilities and their families on service waiting lists to secure respite or other supports; 2) building system capacity to respond to emergency needs (i.e. death of a parent who has been the care provider, stabilization of an acute behavioral problem); and 3) raising the minimum respite reimbursement rate for currently enrolled families.

8) EHSC Certification Requirement - The Executive Budget adds 1.13 FTE and $32,611 in fiscal 1998 and 1.50 FTE and $43,317 in fiscal 1999 to address Medicaid certification problems related to the Eastmont Human Services Center active treatment program and the behavioral management issues noted in the 1996 Medicaid survey.

LFD Comment - This request adds a 0.5 FTE resident care aide, approved as 1.0 FTE by the 1991 legislature to meet Medicaid certification needs, and inadvertently recorded as 0.5 FTE in the state personnel system. The position has been filled with a full time person since its creation. The additional 1.0 FTE for a habilitation specialist in the behavioral area is requested as a result of caseload increases due to changes in the needs of the population served at EHSC. In addition, agency officials report that the January 1996 Medicaid survey indicated several deficiencies in the area of behavioral management due to inadequate staff time.

These FTE adjustments are more appropriately described as present law adjustments since they address Medicaid certification issues involving existing client caseloads.

9) Disability Determination Staff - The Executive Budget adds 2.25 FTE and $68,946 in fiscal 1998 and 3.00 FTE and $91,929 in fiscal 1999 for the Disability Determination Services Program to handle additional federally-mandated caseloads. The Social Security Administration is requiring states to add staff to handle increased case reviews resulting from changes in recent federal legislation, including welfare reform and drug, alcohol, and addiction eligibility reform. The program is 100 percent federally funded.

LFD Issue **- This request is for disability claims manager positions. The 1995 legislature required the department to reduce FTE by 25.0 for expected economies and efficiencies of the reorganization. The department listed a 0.5 FTE disability determination examiner position as part of this required reduction. Should the legislature approve this request for additional FTE, the actual number of FTE reduced due to reorganization will not meet the required 25.0 FTE level, and the legislature may wish to reduce FTE by 0.5 elsewhere in the department.**

Program Issues

FTE Allocation Within the Division

Table 24 presents a summary of the FTE allocation within the Disability Services Division. The present law reduction of FTE for the division equals 27.3 FTE. Sixty-eight percent of the division's allocated FTE occur in the two institutions of MDC and EHSC. The majority (25.3) of the 27.3 FTE reductions occurred at MDC due to 1995 legislation in regard to: 1) a reduction of 17.3 FTE as a result of campus consolidation achieved by the physical redesign of the MDC campus and relocating some residents to community group homes; 2) a reduction of 5.0 FTE in laundry services due to transfer of this service to the prison system; and 3) a 3.0 FTE reduction due to the legislatively required economies and efficiencies of department reorganization. An additional 0.5 FTE was reduced from the Disability Determination Bureau, and 1.5 FTE was removed from the Vocational Rehabilitation program due to the required efficiencies and economies of the department reorganization. Any other differences between fiscal 1996 appropriated FTE and those requested in fiscal 1998 and fiscal 1999 are due to: 1) requested FTE under new proposals (equals 3.38 for fiscal 1998 and 4.5 for fiscal 1999); and 2) program transfers within PHHS.

Table 24
Summary of
FTE Allocation
Within Disability Services Division

Subprogram	Appropriated Fiscal 1996	Total Executive Budget Requested Fiscal 1998	Total Executive Budget Requested Fiscal 1999
Vocational Rehabilitation & Blind/Low Vision Services	89.75	88.75	88.75
Developmental Disabilities	76.75	74.75	74.75
Disability Determination	40.00	40.25	41.00
MDC	353.31	324.61	324.61
EHSC	107.37	108.50	108.87
DDPAC	2.00	2.00	2.00
Total	669.18	638.86	639.98

Title XX Reductions and Requested Present Law Adjustments

All of the DS Division's Title XX reductions were incurred in the DD program and occurred in fiscal 1996. The DD program managed these reductions in two primary ways: 1) through refinancing of costs with Medicaid funds; and 2) by delaying an expansion of services for fiscal 1997 approved by the 1995 legislature. The Medicaid refinancing entailed replacing Title XX federal funds with Medicaid funds in those cases where clients met eligibility requirements.

Table 25 summarizes the funding requests of the four present law adjustments that are requested to compensate for the Title XX reduction, and provide for fiscal 1996 maintenance of service delivery.

Table 25
Title XX Reductions and Present Law Adjustments
Summary of Funding Requests

Present Law Adjustment	FY 1998 General Fund	FY 1998 Federal Funds	FY 1999 General Fund	FY 1999 Federal Funds
Item 23. Title XX reductions	$356,022	($1,117,897)	$356,022	($1,117,897)
Item 23. Medicaid refinancing		$761,875		$761,875
Item 8. Fiscal 1997 DSD Expansion Commitments	377,653	520,934	370,218	528,369
Item 7. Annualize Fiscal1996 Services Startup	241,248	77,187	240,100	78,335
Item 6. Annualize Fiscal 1996 DDP Services	(373,381)	2,317,737	(409,816)	2,317,737
Total Adjustments	$601,542	$2,559,836	$556,524	$2,568,419

Present law adjustment item number 23 in the table indicates that a $1,117,897 reduction in Title XX funds occurs in each year of the biennium. The Executive Budget proposes totally offsetting this reduction by an increase of $761,875 in Medicaid funds for each year of the biennium (i.e. refinancing) and an increase of $356,022 of general fund in each year of the biennium.

Present law adjustment item number 8 (equals $898,587 for each year of the biennium) adds the legislatively approved expansion commitments into the fiscal 1996 base, since they were delayed due to the Title XX reductions, and did not occur in fiscal 1996.

Present law adjustment item number 7 (equals $318,435 for each year of the biennium) annualizes services (other than those included in item number 8 above) into the fiscal 1996 base. This annualization is needed since individuals enter different DD programs and services at different times of the biennium. This adjustment ensures that currently provided services for individuals in the programs are funded for the 1999 biennium.

Present law adjustment item number 6 annualizes provider contracts, other individual services, and Medicaid refinancing that occurred at different times of the biennium into the fiscal 1996 base. Due to Medicaid refinancing, a cost reduction in general fund of $373,381 in fiscal 1998 and $409,816 in fiscal 1999 occurred.

Table 25 indicates that the total requested increased general fund support equals $601,542 in fiscal 1998 and $556,524 in fiscal 1999 for these present law adjustments that reflect Title XX federal funding reductions.

The DD Program has become more reliant on Medicaid funding as a result of the Title XX funding reductions. Thus, future federal funding reductions in the Medicaid program could potentially have a greater impact upon service delivery, or require more general fund support. The additional issue for legislative consideration is whether, since it is more significantly funded with general fund than previously anticipated, the legislature wishes to continue the expansion commitments and/or service expansions made by the previous legislature.

6901 22

Department of Public Health & Human Services — **Senior & Long-Term Care Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	122.59	4.00	7.83	134.42	4.00	14.29	140.88	134.42
Personal Services	3,628,560	178,304	231,016	4,037,880	186,401	426,534	4,241,495	8,279,375
Operating Expenses	2,819,402	(424,103)	152,010	2,547,309	(398,190)	177,462	2,598,674	5,145,983
Equipment	66,232	49,718	30,000	145,950	(11,032)	0	55,200	201,150
Grants	5,347,540	0	153,194	5,500,734	0	158,194	5,505,734	11,006,468
Benefits and Claims	136,995,732	12,285,731	7,464,911	156,746,374	17,242,875	10,360,734	164,599,341	321,345,715
Debt Service	9,715	0	0	9,715	(9,715)	0	0	9,715
Total Costs	$148,867,181	$12,089,650	$8,031,131	$168,987,962	$17,010,339	$11,122,924	$177,000,444	$345,988,406
General Fund	40,023,798	2,969,640	1,731,492	44,724,930	2,938,099	2,792,850	45,754,747	90,479,678
State/Other Special	2,335,595	30,931	483,090	2,849,616	11,761	487,080	2,834,436	5,684,052
Federal Special	106,507,788	9,089,079	5,816,549	121,413,416	14,060,478	7,842,994	128,411,260	249,824,676
Total Funds	$148,867,181	$12,089,650	$8,031,131	$168,987,962	$17,010,339	$11,122,924	$177,000,444	$345,988,406

Program Description

The purpose of the Senior and Long-Term Care Division is to plan for, and provide, high quality long-term care services to Montana senior citizens and people with physical disabilities. The division provides or makes services available through six major service delivery programs: 1) Office on Aging and its 11 Area Agencies on Aging located across Montana service Montana's elderly; 2) Skilled nursing services and other ancillary services are provided through the Montana Veterans' Home (90 licensed beds) in Columbia Falls and the Eastern Montana Veterans' Home (80 licensed beds) in Glendive; 3) Medicaid Community Services Program provides payment for in-home services which help elderly and disabled persons remain in their own homes; 4) Medicaid Nursing Facility Services Program provides payment for short- and long-term nursing care for more than 5,000 Medicaid eligible persons annually in 98 nursing facilities in 52 Montana counties; 5) The Adult Protective Services Program currently is located in two DPHHS divisions: The Senior and Long-Term Care Division develops policies and the service programs for the Adult Protective Services (APS) Program. Field staff from the Children and Family Services Division provide the adult protective services across the state; and 6) The State Supplemental Payments Program supplements federal SSI payments to SSI eligible individuals who reside in designated residential care facilities.

Funding

The Senior and Long-Term Care Division is funded with: 1) general fund; 2) state special revenue, including private cigarette tax and insurance reimbursements for veteran nursing home services; and 3) federal funds, including Medicaid funds, Veteran's Administration reimbursement for nursing home care, and several federal grants under the Older Americans Act that support aging services.

The Executive Budget provides a 13.5 percent increase in total funds in fiscal 1998 and a 18.9 percent increase in total funds in fiscal 1999. Present law adjustments, the Mental Health Access Plan transfer notwithstanding (see present law issues), account for a larger portion of the increase than new proposals. Federal Medicaid funds contribute the largest portion of the funding increase.

Table 26 recharacterizes the Executive Budget for the Senior and Long-Term Care Division into functions. Aging services and home and community based programs are proposed to receive the largest increases in this division in the 1999 biennium.

Table 26
Senior and Long Term Care Division by Function
Executive Budget Recommendation
1999 Biennium

Function	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Percent Change FY96-98	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Percent Change FY98-99
Aging Services	$6,991,711	$44,325	$2,558,022	$9,594,058	37.22%	$55,472	$2,941,991	$9,989,174	4.12%
Veterans' Homes	3,640,631	56,356	182,290	3,879,277	6.56%	24,652	198,280	3,863,563	-0.41%
Nursing Homes & Institutions	109,614,303	6,536,861	1,528,876	117,680,040	7.36%	8,278,352	3,111,492	121,004,147	2.82%
Home and Community Svcs	26,300,736	5,809,632	3,731,943	35,842,311	36.28%	9,006,162	4,871,161	40,178,059	12.10%
State Administration	2,319,800	(357,524)	30,000	1,992,276	-14.12%	(354,299)	0	1,965,501	-1.34%
Total	$148,867,181	$12,089,650	$8,031,131	$168,987,962	13.52%	$17,010,339	$11,122,924	$177,000,444	4.74%
Funding									
General Fund	$41,577,937	$1,415,502	$2,029,792	$45,023,231	8.29%	$1,383,960	$3,081,650	$46,043,547	2.27%
State Special Revenue	2,335,595	30,931	184,790	2,551,316	9.24%	11,762	198,280	2,545,637	-0.22%
Federal Special Revenue	104,953,649	10,643,218	5,816,549	121,413,416	15.68%	15,614,618	7,842,994	128,411,261	5.76%
Total	$148,867,181	$12,089,651	$8,031,131	$168,987,963	13.52%	$17,010,340	$11,122,924	$177,000,445	4.74%

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6901 22
Department of Public Health & Human Services — Present Law Adjustments/Issues
Senior & Long-Term Care Division

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	178,304	186,401
02		Inflation/Deflation	23,976	36,745
03		Fixed Costs	8,547	10,245
		Total Statewide Adjustments	$210,827	$233,391
Significant Present Law Adjustments				
04	91003	Nursing Homes Adjustment	5,168,807	6,188,058
05	91005	Caseload Adjustments All Svcs	4,539,438	7,735,968
06	91213	Administrative Contracted Services Reduc	(335,813)	(335,047)
07	91232	Admin & Benefits Adjustments To Ssi	140,232	159,355
08	91234	Community Services	1,365,953	1,365,953
09	91235	Hcbs Waiver Adjustment	(95,828)	(95,828)
10	91239	Emvh Start Up Subsidy Elimination	(136,464)	(136,464)
11	91240	Institutions Medicaid Adjustment	1,382,618	2,104,858
		Total Significant PL Adjustments	$12,028,943	$16,986,853
Other Base Adjustments			($150,120)	($209,905)
		Grand Total Present Law Adjustments	$12,089,650	$17,010,339

LFD Issue **- The Executive Budget does not reflect the expenditure transfer out of this program to fund the Mental Health Access Plan; therefore, the present law table is incomplete. Two of the present law adjustments in the present law table are overstated. Table 27 below shows the additional adjustments needed to fund the Mental Health Access Plan. The transfer from the Community Services program is funded with general fund and federal medicaid funds at the estimated FMAP rate and the transfer from the institutions program is 100 percent federal medicaid funds.**

Table 27
Additional Present Law Adjustments
Senior and Long-Term Care Division
1999 Biennium

	Fiscal 1998	Fiscal 1999
Executive Budget P/L Adjustments	$12,089,650	$17,010,339
Transfer for Mental Health Access Plan		
a) Community Services	(552,937)	(572,455)
b) Institutions	(2,089,221)	(2,133,513)
Revised Present Law Adjustments	$9,447,492	$14,304,371

4) Nursing Homes Adjustment - The Executive Budget adds $5,168,807 in fiscal 1998 and $6,188,058 in fiscal 1999 to fund additional Medicaid nursing home costs. These costs are due to a projected growth in bed days of 1 percent per year, each year of the biennium, above the projected fiscal 1997 bed day amount, and annualization of the 3 percent annual provider rate increases which were authorized by the 1995 legislature.

LFD Comment -This adjustment is funded at the estimated FMAP rates for the 1999 biennium; this results in $3,341,459 general fund and $8,015,406 federal Medicaid funds in the 1999 biennium.

LFD Issue - The Executive Budget did not include documentation supporting this request (see LFD Issues section in agency summary). A review of historical costs and service levels, combined with recent rate increases and a projected 1 percent caseload growth, shows that the present law adjustment is within expected growth.

5) Caseload Adjustments All Services - The Executive Budget adds $4,539,438 in fiscal 1998 and $7,735,968 in fiscal 1999 to fund projected caseload growth in the Medicaid home health, personal care, hospice, and home dialysis services.

LFD Comment - Personal care, hospice, and home dialysis services are not federally-mandated services. Rather, they are optional services allowed by federal law and authorized by the Montana legislature. This present law adjustment and present law adjustment number 8 should be considered together because they reflect caseload adjustments for the same services. This adjustment is for caseload increases expected in fiscal 1998 and 1999; present law adjustment number 8 is for caseload increases expected in fiscal 1997. This adjustment is funded at the estimated FMAP rates for the 1999 biennium--this results in $3,588,262 general fund and $8,687,144 federal Medicaid funds in the 1999 biennium.

LFD Issue - The Executive Budget did not include documentation supporting this request (see LFD Issues section in the agency summary). After discussing the issue with the agency, LFD analysis of paid claims (which reflect historical cost and service trends) and agency projected expenditures showed the average annual compounded increase for fiscal 1994 to 1997 is 13.5 percent. The present law adjustments identified here will provide an approximate 14 percent increase in fiscal 1998 and 15 percent increase in fiscal 1999 over prior years.

6) Administrative Contracted Services Reductions - The executive recommends reducing contracted services by $335,813 in fiscal 1998 and $335,047 in fiscal 1999 for the following: decrease of $279,411 due to elimination of development costs for the single point of entry system for assessing long-term care needs for the elderly; a transfer of $15,021 each year of the biennium to the Disability Services Division for the contract to screen admission to the Medicaid waiver and to state institutions for people with developmental disabilities; a net increase of $7,140 in fiscal 1998 and $7,906 in fiscal 1999 for contracts for dietician services and for legal expenses for fair hearings officers provided by the Attorney General's office; an increase of $51,479 each year of the biennium for warehousing commodities delivered to Human Resources Development Councils (HRDCs) for the elderly; and a reduction of $100,000 each year of the biennium to reflect completion of a one-time lien and estate recovery education program.

LFD Comment **- This present law adjustment is funded with $139,295 general fund and $196,518 federal funds in fiscal 1998 and $139,045 general fund and $196,002 federal funds in fiscal 1999.**

7) Admin & Benefits Adjustments to SSI - The Executive Budget includes an additional $140,232 in fiscal 1998 and $159,355 in fiscal 1999 for the following: an increase of $39,301 each year of the biennium to reimburse the Social Security Administration for adding the state supplemental amount to social security checks; an increase of $63,803 each year to annualize the cost of 74 additional people in adult residential care who became eligible for the state supplement; and an increase of $37,128 in fiscal 1998 and $56,251 in fiscal 1999 to fund a projected 2 percent caseload growth anticipated in adult foster homes.

LFD Comment **- This present law increase is funded 100 percent with general fund.**

8) Community Services - The Executive Budget includes a net increase of $1,365,953 each year of the biennium for Medicaid eligible home-based services.

LFD Issue **- This present law adjustment is overstated because of the transfer of funds to the Mental Health Access Plan (see table 27 above). After subtracting the amount that will be transferred to the MHAP, this adjustment is $813,016 in fiscal 1998 and $793,498 in fiscal 1999 and is funded at the estimated FMAP rates for the 1999 biennium. See present law adjustment number 5 for additional information.**

9) HCBS Waiver Adjustment - The Executive Budget maintains the Community Based Services (HCBS) waiver at the fiscal 1996 level. An adjustment is included to transfer $95,828 for annualization of costs for people with Physical Disabilities who transferred from the Medicaid waiver in this division to the Medicaid Physical Disabilities (PD) waiver in the Disabilities Services Division. The option for an individual to transfer from one waiver to another was required by the federal government. The offsetting increase in expenditures is shown in the Disabilities Services Division budget.

LFD Comment **- The Medicaid waiver program provides community-based services for physically disabled and elderly persons. Persons served in the waiver must require the level of care provided by nursing facilities. This adjustment is funded at the estimated FMAP rates for the 1999 biennium; this results in $56,260 general fund and $135,396 federal Medicaid funds in the 1999 biennium.**

10) EMVH Start Up Subsidy Elimination - The budget includes a reduction of $136,464 each year of the biennium for elimination of a subsidy payment for startup costs to the contractor operating the Eastern Montana Veterans' Home (EMVH). The subsidy was during fiscal 1996 only.

LFD Comment **- The present law reduction is funded by cigarette tax state special revenue.**

11) Institutions Medicaid Adjustment - The Executive Budget includes an increase of $1,382,618 in fiscal 1998 and $2,104,858 in fiscal 1999 for the federal portion of Medicaid funding for state-owned institutions. The estimated expenditure increase is based on the anticipated increase in costs and increase in Medicaid caseload at the institutions.

LFD Issue **- This present law adjustment is overstated because of the transfer of funds to the Mental Health Access Plan (see table 27 above). After subtracting the amount that will be transferred to the MHAP, this adjustment is a reduction of $706,603 in fiscal 1998 and $28,655 in fiscal 1999 and is funded with federal medicaid funds. Any changes in the state share are budgeted within the institutions' budget.**

Other Base Adjustments - Numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

6901 22
Department of Public Health & Human Services **Senior & Long-Term Care Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Increase Aging Services: Hcbs Waiver			1,850,907	1,850,907			1,850,907	1,850,907
02	Aging Alzheimer'S Staff	0.75		136,493	136,493	1.00		146,096	146,096
03	Nurse Assistant At Mvh	1.20		24,955	24,955	1.60		33,273	33,273
04	Provider Rate Increase		258,309	337,977	596,286		552,992	789,172	1,342,164
05	Nursing Home Rebase		456,064	1,072,812	1,528,876		898,599	2,212,893	3,111,492
06	Transfer	4.38	357,553	91,465	449,018	9.69	610,885	202,327	813,212
07	Expand Hcbs Waiver		637,066	1,498,591	2,135,657		730,374	1,798,623	2,528,997
08	Mds Coordinator At Mvh	0.75		23,015	23,015	1.00		30,687	30,687
09	Lien Funds:Expand Hcbs Waiver			1,000,000	1,000,000			1,000,000	1,000,000
10	Aging Health Information Staff	0.75		121,604	121,604	1.00		131,776	131,776
11	Emvh Residents Assistance			134,320	134,320			134,320	134,320
12	Staff		22,500	7,500	30,000				
	Total For New Proposals	7.83	$1,731,492	$6,299,639	$8,031,131	14.29	$2,792,850	$8,330,074	$11,122,924

Executive New Proposals

1) Increase Aging Services: HCBS Waiver - The Executive Budget includes $1,850,907 each year of the biennium in federal matching authority. The department is exploring the feasibility of using currently-appropriated general fund dollars in the division as match to expand services for the elderly under the Medicaid Home and Community Based Services (HCBS) Waiver Program. Any expansion of services under this proposal will not result in an increased commitment of state general fund in the future.

LFD Comment **- This proposal essentially gives the department blanket federal authority to expand services using current general fund dollars. The department does not know if any or all of the federal authority will be used. The legislature may want to restrict this appropriation to its intended use.**

2) Aging Alzheimer Staff - The Executive Budget adds $136,493 and 0.75 FTE in fiscal 1998 and $146,096 and 1.00 FTE in fiscal 1999 (federal funds) to support the Alzheimer Demonstration Project grant. This program has been added by budget

amendment each year since it started in 1993. This recommendation would make the program part of the ongoing base appropriation. The project includes strengthening and expanding the infrastructure of existing provider programs and systems by coordinating, educating, and disseminating information about Alzheimer's disease.

3) Nurse Assistant at MVH - The Executive Budget adds 1.20 FTE and $24,955 in fiscal 1998 and 1.60 FTE and $33,273 in fiscal 1999 for a certified nursing assistant (CNA) at the Montana Veterans' Home (MVH) due to an increase in the level of acuity of current residents.

LFD Comment **- This proposal is funded 100 percent with state special revenue (insurance reimbursements and cigarette tax). If legislation that will be introduced this session passes, the cigarette tax will be deposited to the general fund and this proposal would be funded with general fund.**

4) Provider Rate Increase - The Executive Budget adds $596,286 in fiscal 1998 and $1,342,164 in fiscal 1999 to increase the reimbursement rates for senior and long-term care service providers other than nursing facilities by 1.5 percent each year of the 1999 biennium.

LFD Issue **- The programs covered by this provider rate increase include the Medicaid Community Services Program (waiver and HCBS programs) and the Aging Program. The Executive Budget overstates the amount necessary for a 1.5 percent annual increase by $34,419 total funds in fiscal 1998 and $113,386 total funds in fiscal 1999. In addition, the Executive Budget funds the Aging Program's portion of the requested increase with 100 percent general fund while the program's proposed base expenditures are funded approximately 85 percent with federal funds. As a result, the Executive Budget contains $102,733 more general fund in fiscal 1998 and $220,824 more general fund in fiscal 1999 than otherwise required to provide this level of increase. Likewise, federal authority for the proposed increases is understated in the Executive Budget by $68,314 in fiscal 1998 and $107,438 in fiscal 1999.**

5) Nursing Home Rebase - The Executive Budget adds $1,528,876 in fiscal 1998 and $3,111,492 in fiscal 1999 to rebase the system of reimbursement for nursing facilities in fiscal 1998 to more current cost data and to increase the reimbursement rates for nursing facilities by 1.5 percent each year of the biennium.

LFD Comment **- The 1995 legislature authorized 3 percent annual increases for nursing homes. As noted, this request is for an additional 1.5 percent each year of the 1999 biennium. The request to rebase has historically meant an increase in costs and has been requested, in recent years, to stay in compliance with the Boren Amendment, an amendment to Title XIX of the Social Security Act requiring states to adequately reimburse nursing homes for their costs (see Health Policy & Services Division for a description of this amendment). Although recently debated in Congress for repeal, the Boren Amendment is still applicable. Nursing home reimbursement rates are recalculated annually and the department must provide "findings and assurances" in its annual state plan that demonstrates the methodology used to develop nursing home rates is in compliance with the Boren Amendment.**

This proposal is funded with general fund and federal Medicaid funds at the anticipated FMAP rate.

6) Adult Protective Services Transfer - The Executive Budget adds 4.38 FTE and $449,018 in fiscal 1998 and 9.69 FTE and $813,212 in fiscal 1999 to expand protective services for adults in Montana. In addition, the department proposes moving responsibility for adult protective services (APS) to a new APS Bureau within the division and out of the existing Child and Adult Protective Services Program currently contained in the Child and Family Services (CFS) Division. The transfer would move 28 staff from child and family services. (The CFS staff currently reside in that program. If the legislature does not

approve the expansion for APS proposed here, the executive recommends the existing staff and resources remain in the CFS division.) The additional 9.69 FTE requested in this item will be phased in during the 1999 biennium. The expanded APS bureau will work in concert with programs in the Office on Aging and the Community Services Bureau to provide a coordinated system of home and community care across the state.

LFD Comment **- The department has noted the additional staff is for social workers that would be dedicated for adult protective services in the field. This contrasts with the current method of social workers serving both children and adults. The proposal also contains $218,865 in fiscal 1998 and $392,854 in fiscal 1999 for adult protective supportive services. This proposal is funded with general fund totaling $357,553 in fiscal 1998 and $610,885 in fiscal 1999 and federal funds totaling $91,465 in fiscal 1998 and $202,327 in fiscal 1999.**

7) Expand HCBS Waiver - The Executive Budget adds $2,135,657 in fiscal 1998 and $2,528,997 in fiscal 1999 to increase the number of Montanans served in the Home and Community Based Services (HCBS) Waiver Program. This proposal would increase services to a minimum of 72 additional elderly and disabled individuals from the list of those who are waiting for services. The program provides Medicaid funded, long-term care services to people who are able to remain in their own homes or to live in smaller alternative residential care settings.

LFD Comment **- The waiver expansion proposal is funded from general fund and federal funds split at the anticipated FMAP rate each year of the 1999 biennium. Based upon October 1996 expenditure and service data for fiscal 1996 services, the department served 1,242 recipients and reimbursed providers approximately $8,200 per recipient for waiver services. If the department provides services to 72 additional recipients each year with the additional funds in this proposal, the per recipient cost of the additional people served will be $29,662 in fiscal 1998 and $35,125 in fiscal 1999. The agency noted that waiver services are individualized and the cost of providing services varies. The agency also noted they expected to serve at least 72 additional individuals and potentially could serve more. The legislature may want to seek an explanation from the department on the reason for the cost variance before taking action on this program expansion.**

8) MDS Coordinator at MVH - The Executive Budget adds 0.75 FTE and $23,015 in fiscal 1998 and 1.00 FTE and $30,687 in fiscal 1999 for a minimum data set (MDS) coordinator position for the MVH. This position will provide for continuous and accurate implementation of federal regulations governing licensing of the MVH.

LFD Comment **- This proposal is funded 100 percent with state special revenue (insurance reimbursements and cigarette tax).**

9) Lien Funds: Expand HCBS Waiver - The Executive Budget adds $1 million in fiscal 1998 and fiscal 1999 to continue the practice started by the 1995 legislature to spend up to $1 million per year in lien and estate funds to expand waiver services once the $600,000 recovery threshold is reached in a year. The 1995 legislature strengthened Montana's lien and estate recovery procedures. The lien and estate provisions of the law enable the state to recover some of the costs the state incurs for long-term care services to Medicaid recipients. Lien and estate recoveries in excess of $600,000 did not occur in fiscal 1996, but are projected to begin in fiscal 1997. The state's share of any lien and estate recoveries in excess of the $600,000 target will be used as Medicaid matching funds under the HCBS Waiver Program to pay for up to $1 million in additional services.

LFD Comment **- For additional explanation of the Lien and Estate Collections, see the discussion in the Quality Assurance Division narrative.**

10) Aging Health Information Staff - The Executive Budget adds 0.75 FTE and $121,604 in fiscal 1998 and 1.00 FTE and $131,776 in fiscal 1999 in federal funds to continue the statewide Information, Counseling, and Assistance (ICA) Program for beneficiaries relating to Medicare, Medicaid, long-term care insurance, and other health benefit information. The ICA Program has been in place since fiscal 1993 and has been added by budget amendment each year. This proposal would provide the program with an ongoing base appropriation. ICA services include increasing the distribution of Medicaid and Medicare information to individuals and groups through: education seminars, publicizing the toll-free telephone numbers of assistance organizations, providing individual and group counseling sessions, and establishing a system of referral for assistance to beneficiaries with health insurance problems.

11) EMVH Residents Assistance - The Executive Budget adds $134,320 state special revenue cigarette tax each year of the biennium to provide a $10.00 per day contribution toward the care of veterans who reside at the Eastern Montana Veterans' Home (EMVH) and who pay for their own care because they are unable to qualify for Medicaid or Medicare. Cigarette tax proceeds fund a percentage of the nursing home budget at the MVH in Columbia Falls, but were not previously used for the ongoing patient care at EMVH. Currently veterans paying for their own care and residing at EMVH pay about $10.00 per day more than veterans residing at MVH. This proposal would ensure that the out-of-pocket cost of care to a veteran at either facility is about the same.

LFD Comment **- If legislation proposed by the Legislative Finance Committee passes, the cigarette tax would be deposited to the general fund and this proposal would be funded with general fund.**

12) New Equipment for Additional Staff - The Executive Budget adds $30,000 in fiscal 1998 to purchase personal computers and equipment for the additional FTEs for adult protective services, the aging Alzheimer's project, the aging health information position, and the MDS coordinator at MVH.

LFD Comment **- This proposal is funded $22,500 from state general fund, $2,500 from state special revenue funds, and $5,000 from federal funds.**

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	677.42	(8.50)	0.75	669.67	(8.50)	1.00	669.92	669.67
Personal Services	22,552,408	(140,789)	24,896	22,436,515	(46,991)	33,196	22,538,613	44,975,128
Operating Expenses	5,812,667	49,568,292	1,167,074	56,548,033	50,134,551	2,127,244	58,074,462	114,622,495
Equipment	132,885	(50,689)	0	82,196	(50,689)	0	82,196	164,392
Grants	14,760,484	(11,232,728)	0	3,527,756	(11,232,343)	0	3,528,141	7,055,897
Benefits and Claims	15,237,129	(15,237,129)	0	0	(15,237,129)	0	0	0
Total Costs	$58,495,573	$22,906,957	$1,191,970	$82,594,500	$23,567,399	$2,160,440	$84,223,412	$166,817,912
General Fund	38,734,819	1,644,479	549,163	40,928,461	1,962,575	841,951	41,539,345	82,467,805
State/Other Special	2,628,110	19,175,176	50,000	21,853,286	19,323,127	100,000	22,051,237	43,904,523
Federal Special	17,132,644	2,087,302	592,807	19,812,753	2,281,697	1,218,489	20,632,830	40,445,583
Total Funds	$58,495,573	$22,906,957	$1,191,970	$82,594,500	$23,567,399	$2,160,440	$84,223,412	$166,817,912

Program Description

The purpose of the Addictive and Mental Disorders Division is to assure a statewide continuum of effective prevention, treatment, and rehabilitation services for people with chemical dependency and mental illness. Alcohol and drug services are provided through inpatient and outpatient settings. Direct inpatient services are provided at the 76 bed Montana Chemical Dependency Center (MCDC) in Butte. Other inpatient and outpatient services are provided through contracts with community-based programs around the state. Through the Mental Health Access Plan (MHAP), a single managed care organization (MCO) is responsible for arranging for all necessary and appropriate publicly-funded mental health care on a pre-paid, full-risk basis. MHAP will operate throughout Montana and will include all mental health services presently furnished through Medicaid and state funded programs.

Funding

The division is funded with state general fund, earmarked alcohol tax, federal block grants, and Medicaid funds. Alcohol and drug direct and indirect services are funded with earmarked alcohol tax and federal block grant funding. The Executive Budget contains a new proposal to fund problem gambling treatment services with general fund and state special revenue in the 1999 biennium. The mental health system is funded with state general fund, Medicaid funds, and federal block grant funds. Montana State Hospital (MSH) and the Montana Mental Health Nursing Care Center (MMHNCC) are funded with state general fund and state special revenue funds to enable payments from the MCO.

Table 28 presents historical and projected revenue and expenditures from the earmarked alcohol tax. Revenues are projected to climb steadily while expenditures are budgeted to remain flat, and even decline slightly in the 1999 biennium. The result is a projected increasing fund balance.

Table 28
Earmarked Alcohol Tax Fund Analysis
Fiscal Years 1992 through 1999

	Fiscal 1992	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997*	Fiscal 1998**	Fiscal 1999**
Beginning Balance	$836,686	$747,068	$939,014	$747,362	$366,567	$915,456	$1,019,026	$1,486,977
Revenues								
Beer Tax	$806,827	$758,421	$748,966	$747,826	$774,416	$783,000	$793,000	$802,000
Wine Tax	439,667	398,867	393,237	424,507	450,950	$445,000	$446,000	$446,000
Cost Recovery	136,258	109,266	85,103	89,344	93,476	$90,000	$90,000	$90,000
Liquor License	2,504,497	2,571,812	2,574,566	2,582,343	2,989,608	$2,756,000	$2,816,000	$2,882,000
Total Revenue	$3,887,249	$3,838,366	$3,801,872	$3,844,020	$4,308,450	$4,074,000	$4,145,000	$4,220,000
Total Funds Available	$4,723,935	$4,585,434	$4,740,886	$4,591,382	$4,675,017	$4,989,456	$5,164,026	$5,706,977
Disbursements								
CD Operations & Audit	$370,957	$324,819	$369,410	$42,575	$0	$0	$97,141	$96,666
Total Chemical Dependency	1,885,841	1,801,747	2,283,052	2,782,158	2,495,467	2,634,066	2,279,424	2,301,269
Distribution to Counties	1,330,000	1,250,000	999,984	999,984	999,984	1,000,000	1,000,000	1,000,000
State Prison/Swan River/WCC	81,182	97,224	59,290	105,226	0	0	0	0
Pine Hills	26,319	27,000	28,923	30,404	25,413	30,901	25,269	25,057
Justice-Drug Testing	250,469	237,182	265,295	276,008	256,121	256,041	256,122	256,122
PHHS-Quality Assurance	0	0	0	0	0	49,422	19,093	19,060
Total Disbursements	$3,944,768	$3,737,972	$4,005,954	$4,236,355	$3,776,985	$3,970,430	$3,677,049	$3,698,174
Adjustments	(32,099)	91,552	12,430	11,540	17,424			
Ending Balance	$747,068	$939,014	$747,362	$366,567	$915,456	$1,019,026	$1,486,977	$2,008,803

*Fiscal 1997 appropriated or estimated
**Fiscal 1998 and fiscal 1999 show executive budget disbursements and ROC estimates.

Table 29 presents the executive proposed budget for the Addictive and Mental Disorders Division divided into functional components. As noted in the first LFD present law issue, the Executive Budget does not reflect the full cost of the MHAP in this division's proposed budget.

Table 29
Addictive and Mental Disorders Division
Executive Budget by Program Function
1999 Biennium

Function	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec Budget Fiscal 1998	Percent Change FY96-98	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec Budget Fiscal 1999	Percent Change FY98-99
Addictive Disorders	$5,471,358	($64,178)	$100,000	$5,507,180	0.65%	($41,948)	$200,000	$5,629,410	2.89%
Mental Disorders	51,395,822	22,997,543	1,091,970	75,485,335	46.87%	23,633,619	1,960,440	76,989,881	49.80%
Division Administration	1,628,393	(26,408)	0	1,601,985	-1.62%	(24,272)	0	1,604,121	1.49%
Total	$58,495,573	$22,906,957	$1,191,970	$82,594,500	41.20%	$23,567,399	$2,160,440	$84,223,412	43.98%
Funding									
General Fund	$38,734,819	$1,644,479	$549,163	$40,928,461	5.66%	$1,962,575	$841,951	$41,539,345	7.24%
State Special Revenue	2,628,110	19,175,176	50,000	21,853,286	731.52%	19,323,127	100,000	22,051,237	739.05%
Federal Special Revenue	17,132,644	2,087,303	592,807	19,812,754	15.64%	2,281,697	1,218,489	20,632,830	20.43%
Total	$58,495,573	$22,906,958	$1,191,970	$82,594,501	41.20%	$23,567,399	$2,160,440	$84,223,412	43.98%

6901 33
Department of Public Health & Human Services — **Addictive & Mental Disorders Division**
Performance Based Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	43.35	0.00	43.35	43.35	0.00	43.35	43.35
Performance Based	2,245,231	34,193	0	2,279,424	56,038	0	2,301,269	4,580,693
Total Costs	$2,245,231	$34,193	$0	$2,279,424	$56,038	$0	$2,301,269	$4,580,693
State/Other Special	2,245,231	34,193	0	2,279,424	56,038	0	2,301,269	4,580,693
Total Funds	$2,245,231	$34,193	$0	$2,279,424	$56,038	$0	$2,301,269	$4,580,693

Performance-Based Budget

The Montana Chemical Dependency Center is one of sixteen state programs participating in a performance-based budgeting (PBB) pilot project. The present law increase for MCDC during fiscal 1998 is $34,193 and during fiscal 1999 is $56,038. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the Montana Chemical Dependency Center is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

Goal 1: Through collaboration with referral sources, ensure that placement standards are met and that appropriate utilization of services is maintained.

Performance Measure/Target: A utilization review will be conducted on 100% of level III placement justification packets. In the case of inadequate documentation, the referring counselor will be contacted and given an opportunity to correct the deficiencies and resubmit.

FY96	FY97 Target	FY98 Target
(placement compliance) 65%	75%	85%

Explanation: Placement standards have been established; however, compliance and inadequate documentation are ongoing problems. By conducting utilization reviews, contacting and educating referral sources of deficiencies will improve compliance and not interfere with timely access to services.

Goal 2: Through collaboration with referral sources, increase the number of scheduled clients admitted for treatment.

Performance Measure/Target: During the utilization review, identify potential problems that may affect the client's ability to be present for admission and problem solve with the referring counselor.

FY96 Base	FY 97 Target	FY 98 Target
(show-up rate) 70%	(show-up rate) 73%	(show-up rate) 76%

Explanation: All clients admitted to MCDC are referred by community-based certified chemical dependency counselors. When a potential client is placed on the scheduled admission list and does not show up for admission, this affects MCDC's utilization since the bed is reserved. By identifying and addressing issues such as child care, transportation, and other barriers to receiving treatment, this may improve case management on a community level and improve the show-up rate.

Goal 3: Increase client retention in treatment until treatment plan completion.

Performance Measure/Target: Monitor and review all discharges through the quality assurance process, identify factors of premature discharges, and develop corrective actions to improve outcome.

FY96	FY 97 Target	FY 98 Target
(completion rate) 63%	(completion rate) 66%	(completion rate) 69%

Explanation: It is MCDC's primary goal to retain clients in treatment until they complete their treatment plan and participate in the discharge planning and continued care process. Two factors that appear to affect the completion rate are: 1) lack of professional staffing during evening and weekend shifts; and 2) inappropriate admissions. Other external and internal factors will be monitored through the quality assurance process and appropriate corrective action will be taken within the scope of resources.

Goal 4: Improve client compliance with continued care recommendations back to programs in the community.

Performance Measure/Target: Increase the number of clients that comply with discharge recommendations for continued care in the community by applying managed care principles and conducting follow up to measure compliance and collect data on set outcome indicators.

FY96	FY 97 Target	FY 98 Target
(continued care show-up rate) 61% (this is of the 63% that completed and participated in the discharge/placement process)	65%	70%

Explanation: Client success is related to compliance with the following continued care recommendations. A managed care approach to placement and client accountability have proven to improve compliance and outcome. In addition, it is imperative that reliable outcome and effective data be collected to continue to improve treatment strategies and demonstrate treatment effectiveness.

The balance of other base adjustments, numerous small dollar increases and decreases from the base year in operating expenses, comprise the net amounts for other base adjustments.

<u>*LFD Comment*</u> - The proposed performance-based budget does not link program goals to funds in the budget. A well-designed performance budget identifies the cost of performing each identified goal, thereby allowing the legislature to estimate and evaluate the impact of budget changes on program goals.

The identified performance measures are very specific to the Montana Chemical Dependency Center. However, since the MCDC is part of a chemical dependency treatment continuum, an overriding goal for all chemical dependency treatment and prevention programs, including the MCDC, should be the reduction of substance abuse and its negative effects in society. The legislature may want to ask the department if and how the MCDC fits into this overall goal and how it will evaluate its role in that goal.

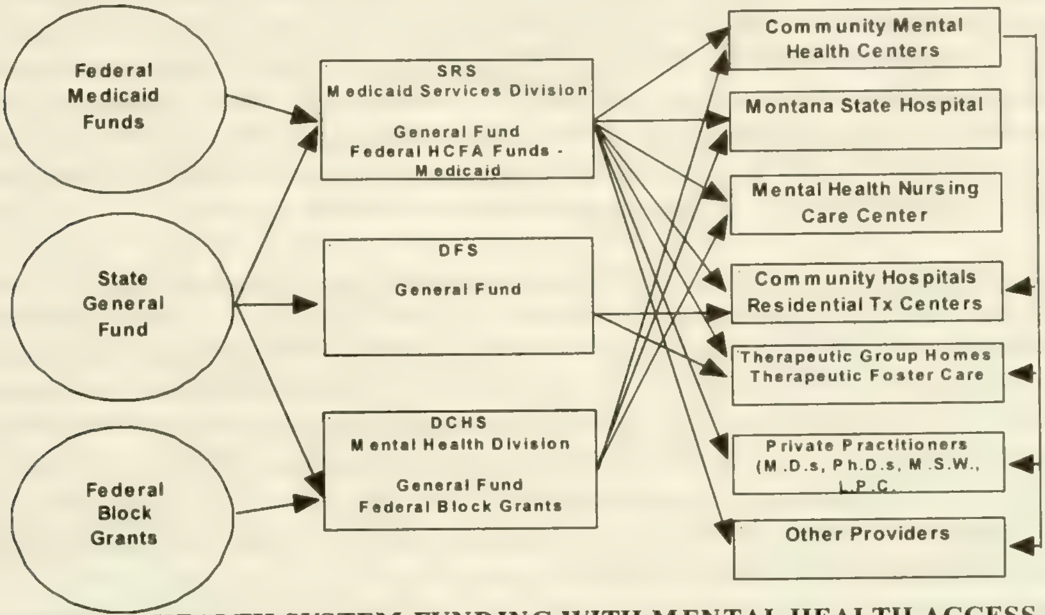
Mental Health Access Plan Overview

Prior to implementation of mental health managed care, contracted to begin April 1, 1997, mental health services are being provided through both direct care and indirect care. Direct services are provided at the 248 bed inpatient Montana State Hospital (MSH) in Warm Springs, for adults with serious mental illness, and at the 191 bed Montana Mental Health Nursing Care Center (MMHNCC) in Lewistown, for long-term care services for older Montanans with mental illness that prevents successful placement in private nursing homes. The core continuum of care for outpatient services are provided by community mental health centers. The centers are also responsible for developing alternatives to institutional care for adults with severe psychiatric disabilities and for children and adolescents with severe emotional disturbances. In addition, private mental health providers and residential treatment programs are directly reimbursed by the division for services provided to Medicaid recipients.

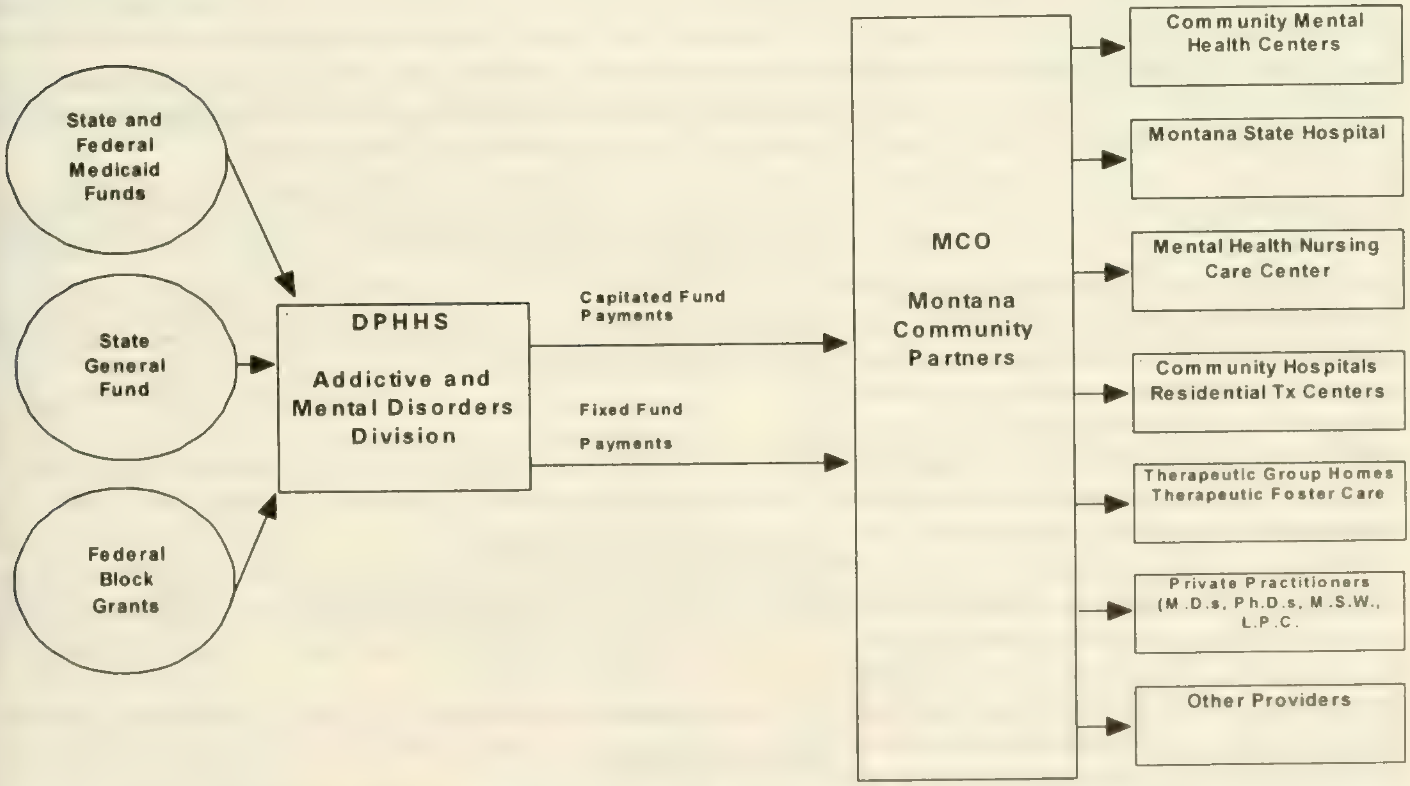
After implementation of the Mental Health Access Plan (MHAP), services will be managed by the Montana Community Partners mental health managed care organization (MCO). The MCO will be responsible for delivering care to individuals eligible for services under the MHAP, through contracts with inpatient hospitals, MSH, MMHNCC, residential treatment settings, community mental health centers, therapeutic group care facilities, school day treatment programs, crisis programs and a variety of private therapists. The MCO will also develop innovative and flexible services to supplement the current continuum of care, in a manner which maintains or increases the quality of care to consumers, and is as cost-effective and efficient as possible. The department will continue to have stringent oversight procedures to ensure that the access to services and the quality of services are maintained or improved.

The advantages of the MHAP are: 1) increased public access to flexible, cost-effective services; and 2) service continuum integration of comprehensive and coordinated care. Services will be available to all Medicaid eligible individuals and lower-income families with severe mental illnesses (up to 200% of the poverty index). MHAP services are funded through two sources: 1) a capitated pool which will replace all Medicaid fee-for-service funding for mental health services, and 2) a non-capitated fixed pool that includes all programs that traditionally were funded with only state funds, such as community mental health services for severe psychiatric disabilities, MSH, MMHNCC, and Managing Resources Montana (MRM) for children and adolescents with severe emotional disturbances. The diagram below shows the funding streams for mental health services prior to development of the MHAP, and the funding mechanism under the MHAP.

MENTAL HEALTH SYSTEM FUNDING PROCESS PRIOR TO MANAGED CARE



MENTAL HEALTH SYSTEM FUNDING WITH MENTAL HEALTH ACCESS PLAN



Approximately 25% of Montana State Hospital and 8% of Montana Mental Health Nursing Care Center budgets are funded directly with state general fund for non Mental Health Access Plan patients. PATH/Homeless grant funds will be distributed directly to CMHCs.

LFD Comment **- When the 1995 legislature authorized implementation of the mental health managed care program, the agency intended to develop a managed care plan that would expand Medicaid eligibility for mental health services to persons whose family income was up to 200 percent of the Federal Poverty Level. By doing so, the department would have been able to leverage current general fund dollars against additional federal Medicaid dollars to pay for the expanded coverage. In order to effect the change, the department had to obtain a waiver from federal authorities. This waiver was ultimately denied on the basis that Montana could not provide optional mental health services to certain individuals under Medicaid and not offer mandatory physical health services to the same population.**

After the waiver denial, the agency sought and obtained approval for a "freedom of choice" waiver meaning that instead of giving Medicaid recipients a choice of mental health providers, they would be required to receive mental health services through the managed care organization. The new waiver did not provide for any change in eligibility for Medicaid services. The impact of the waiver denial on the original mental health managed care concept was to eliminate the possibility of receiving additional federal Medicaid funds. Consequently, the department had to scale back on anticipated eligibility. PHHS, in consultation with the Mental Health Advisory Group, changed program eligibility for the non-Medicaid group to families with incomes below 200 percent of the Federal Poverty Level with children diagnosed as seriously emotionally disturbed or adults diagnosed as severely mentally ill.

The managed care organization will receive a fixed monthly payment for each person who is Medicaid eligible under the Mental Health Access Plan. This type of payment is called a capitated rate, which will vary based on the type of eligibility and age of the Medicaid recipient. The rates contained in the final Request for Proposal include 1.5 percent annual provider rate increases. For the non-Medicaid group, the managed care organization will receive a fixed monthly amount independent on the number of people who qualify for non-Medicaid eligibility. The five year contract will total approximately $400 million.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issue **- The Executive Budget does not reflect the expenditure transfer into this program to fund the Mental Health Access Plan; therefore, the present law table is incomplete. Table 30 below shows the additional adjustments needed to fund the Mental Health Access Plan.**

6901 33

Department of Public Health & Human Services Addictive & Mental Disorders Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(140,789)	(46,991)
02		Inflation/Deflation	128,930	194,305
03		Fixed Costs	124,506	127,108
		Total Statewide Adjustments	$112,647	$274,422
Significant Present Law Adjustments				
04	91610	Administrative Adjustments (Cost Allocati	(138,729)	(134,071)
05	91620	Administrative Adjustments (Non-Cost All	266,404	261,435
06	91638	Montana State Hospital Non-Direct Care	120,646	122,943
07	91640	Mmhncc Non-Direct Care	106,106	108,611
		Total Significant PL Adjustments	$354,427	$358,918
Other Base Adjustments			$22,439,883	$22,934,059
		Grand Total Present Law Adjustments	$22,906,957	$23,567,399

Table 30
Additional Present Law Adjustments
Addictive and Mental Disorders Division
1999 Biennium

	Fiscal 1998	Fiscal 1999
Executive Budget Present Law Adjustments	$22,906,957	$23,567,399
Transfer for MHAP		
From Health Policy & Services	$22,233,167	$23,469,739
From Senior & Long-Term Care	2,642,158	2,705,968
Revised Present Law Adjustments	$47,782,282	$49,743,106

4) Administrative Adjustments (Cost Allocated) - The Executive Budget decreases $138,729 in fiscal 1998 and $134,071 in fiscal 1999 for operating and equipment changes in cost-allocated state office administration expenses. Changes include a reduction for a one-time expense of $67,736 at Montana State Hospital (MSH) for computer wiring and bond counsel charges; reductions in other contracted services of $41,555 each year; an increase of $12,440 each year in travel costs for the AMDD Council; and a reduction in equipment requirements and other operating adjustments of $41,838 in fiscal 1998 and $37,220 in fiscal 1999.

LFD Comment **- The reduction is funded with $117,463 general fund and $21,266 federal funds in fiscal 1998 and $112,805 general fund and $21,266 federal funds in fiscal 1999.**

5) Administrative Adjustments (Non-Cost Allocated) - The Executive Budget adds $266,404 in fiscal 1998 and $261,435 in fiscal 1999 for operating and equipment changes in direct-charge state office administration expenses. Changes include an increase of $350,000 each year of the biennium for the Managed Care Evaluation Contract, which is required by the federal Health Care Financing Administration as a condition of receiving and operating the Montana Mental Health Managed Care Plan under a waiver; reductions of $85,476 in fiscal 1998 and $90,477 in fiscal 1999 for contracts and contracted services which are eliminated primarily due to implementation of managed care; and other minor operating increases of $1,880 in fiscal 1998 and $1,912 in fiscal 1999.

LFD Comment **- Program evaluations are typically required by federal Medicaid authorities when a program is implemented under a Medicaid waiver. The evaluation must assess the impact of the waiver on beneficiaries' access to care, the quality of services, and the cost-effectiveness of the program. The present law adjustment is funded with general fund of $177,088 in fiscal 1998 and $177,119 in fiscal 1999, state special revenue of $9,500 in fiscal 1998 and $4,500 in fiscal 1999, and federal funds totaling $79,816 each year of the 1999 biennium.**

6) Montana State Hospital Non-Direct Care - The Executive Budget adds $120,646 in fiscal 1998 and $122,943 in fiscal 1999 comprised of: $150,000 for a professional management services contract to assist MSH in transition to a Managed Care System; a reduction in other contracts of $113,864 due to elimination of a psychiatric contract; an increase of $57,012 to annualize a rate increase for laundry, which is contracted with Montana State Prison (MSP); an increase of $82,861 in fiscal 1998 and $85,529 in fiscal 1999 for costs resulting from a court decision disallowing Medicaid coverage for patients who were ineligible upon admission to MSH unless they reside on a certified unit of the hospital; reductions in equipment

requirements and other minor operating adjustments of $55,363 in fiscal 1998 and $55,734 in fiscal 1999.

LFD Issue **- Budget documentation supporting the Prison Industries program shows that the laundry rates for Montana State Hospital are projected to remain constant from fiscal years 1996 to 1999. Therefore, the legislature could reduce this present law adjustment by $57,012 annually, saving $14,253 general fund and $42,759 state special revenue each year of the 1999 biennium.**

7) MMHNCC Non-Direct Care - The Executive Budget adds $106,106 in fiscal 1998 and $108,611 in fiscal 1999 which includes a $16,193 increase for services provided by the medical director, dentists, physical therapists, dieticians, speech pathologists, and occupational therapists who are required to maintain Medicaid licensure for MMHNCC; an increase of $48,000 for outside medical services provided to residents under age 65, who are not eligible for Medicaid coverage because MMHNCC has been designated an Institution for Mental Disease (IMD); an increase of $15,190 in fiscal 1997 and $15,679 in fiscal 1999 for psychiatrist and psychologist consulting services; increases of $8,873 in fiscal 1998 and $10,889 in fiscal 1999 for additional costs under the pharmacy contract to allow for a new drug dispensing system; and an increase of $17,850 to provide patient allowances for patients who lost Supplementary Security Income (SSI) benefits due to the change in the status of MMHNCC to an IMD.

LFD Comment - Items 6 & 7 **- The adjustments detailed above are directly and indirectly funded by general fund. Direct general fund support is provided through the general fund appropriations allocated to the specific institution. Indirect general fund support is provided with the implementation of the managed care contract. The institutions will be receiving payment for services rendered to the MCO, and in turn, be using those payments to support their operating budgets. The state will use general fund to pay the MCO.**

Other Base Adjustments - The balance of present law base adjustments are primarily comprised of the Mental Health Managed Care Contract. The Executive Budget includes increases of $22,403,227 during 1998 and $22,888,296 during fiscal 1999 primarily to fund the continuation of the Mental Health Managed Care initiative which was started in fiscal 1997. The contract consists of two financial components, Medicaid and non-Medicaid, and spending authority to allow the department to receive reimbursement from the managed care contractor for services provided at MSH and MMHNCC.

For the Medicaid component, the various streams of Medicaid funds which paid for mental health coverage in the former Department of Social and Rehabilitation Services (SRS), Department of Family Services (DFS), and Department of Corrections and Human Services (DCHS) were combined into one under the Mental Health Managed Care contract. The non-Medicaid component will pay for services for non-Medicaid eligible clients who are eligible for services under the Mental Health Access Plan. Both the Medicaid component and the non-Medicaid component will be able to pay for the same continuum of care services. However, the Medicaid component will pay only for Medicaid eligible clients on a capitated basis.

Services provided prior to mental health managed care implementation included residential treatment center community care, targeted group home, targeted case management for the mentally ill, psychological services, community services delivered by community mental health centers, services delivered by Managing Resources Montana (MRM), services at MSH, and services provided by the MMHNCC. Under the new system, the managed care contractor will work with communities to develop a continuum of care which may include many of these services and will be targeted at providing the most effective treatment in the most appropriate setting.

LFD Comment **- This base adjustment is funded primarily from state special revenue to accommodate the payment system described in the executive narrative. The base adjustment for the institutions' conversion to the MHAP totals approximately $19.2 million annually.**

LFD Issue **- The present law adjustment also includes approximately $0.8 million in fiscal 1998 and $1.2 million in fiscal 1999 for vacancy savings recovery and pay plan funding for the institutional component of the MHAP fixed pool. See the mental health managed care discussion in the 'Mental Health Managed Care Issue' in the "Program Issues" section of this division's narrative for a fuller discussion of this issue and the mental health managed care 1999 biennium proposed budget.**

6901 33

Department of Public Health & Human Services **Addictive & Mental Disorders Division**

Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Problem Gambling Treatment	0.75	50,000	50,000	100,000	1.00	100,000	100,000	200,000
02	Provider Rate Increases		499,163	592,807	1,091,970		741,951	1,218,489	1,960,440
	Total For New Proposals	0.75	$549,163	$642,807	$1,191,970	1.00	$841,951	$1,318,489	$2,160,440

Executive New Proposals

1) Problem Gambling Treatment - The Executive Budget adds 0.75 FTE and $100,000 in fiscal 1998 and 1.00 FTE and $200,000 in fiscal 1999 to develop, implement, and administer a prevention and treatment program for problem and pathological gamblers in Montana. This program would provide a range of treatment services, including inpatient services to those persons requiring specialized care; outpatient and aftercare services; and a toll-free telephone service for crisis intervention and referral to counselors for problem gambling. Prevention and educational services will be provided to the general public. Treatment services will be provided by certified gambling counselors or counselors who have specialized training in the diagnosis and treatment of pathological gambling.

LFD Comment **- This proposal is funded with 50 percent general fund and 50 percent state special revenue funds each year of the 1999 biennium. The agency indicates it expects the program to begin October 1, 1997 and that it will serve 60-80 clients in fiscal 1998 and 160 in fiscal 1999. Clients will be billed on a sliding fee schedule based on their ability to pay.**

LFD Issue **- The source of the state special revenue is not specified in the executive budget. The original budget request identified the gambling tax as the only funding source. There is a projected shortfall in gambling tax revenue in the 1999 biennium. See the funding section in the Department of Justice narrative for more detailed information.**

2) Provider Rate Increase - The Executive Budget adds $1,091,970 in fiscal 1998 and $1,960,440 in fiscal 1999 to fund a 1.5 percent provider rate increase for the mental health managed care program.

LFD Comment **- This increase is already built into the budgeted rates. For a discussion of this new proposal, see the LFD mental health managed care issue in the following section.**

Program Issues

Mental Health Managed Care Issue

While the Executive Budget has referenced the mental health managed care plan, called the Mental Health Access Plan, in its narrative, no financial information is presented by the executive branch for legislative consideration. As noted in the agency summary, the department submitted the estimated cost and funding sources for MHAP in late November; this financial data is summarized in the agency summary section. When analyzing the Executive Budget and the MHAP-related information from the department, several issues surfaced that are presented here for discussion.

1) The department's original budget submission identified the cost of the MHAP capitated pool for fiscal 1998 as $53,339,404 and for fiscal 1999 as $55,250,433. The original estimate contained a logical process of estimating costs, based on estimated eligible clients and projected rates per eligible client per month. The rates were developed during the Request-For-Proposal (RFP) process and received thorough scrutiny by the department and the legislature during the 1997 interim. In addition, the nature of a capitated plan calls for a "client base" and proposed rates. Therefore, this process makes logical sense.

   The November 1996 MHAP capitated pool cost estimate from the department is $46,141,131 in fiscal 1998 and $48,309,983 in fiscal 1999, a difference of approximately $7 million per year. When queried about the revised cost estimate, the department indicated the revised estimate was not final, did not contain the same logic as the original request and the RFP actuarial study, and would likely increase by the time the legislature took action on that portion of the MHAP budget (which means that more Medicaid funds would have to be transferred from other programs to this program).

   The issue is not that costs may be less or different than originally estimated, but that the rationale behind the change is unclear. The LFD is concerned that the legislature be provided sufficient information in order to understand the proposal; and that an appropriation of this size, and this one in particular, should be based largely on logical, measurable factors, such as the number of eligible clients and proposed rates. The LFD recommends that the legislature require such information before it takes action on the capitated pool portion of the MHAP budget.

2) The Executive Budget contains a new proposal for a 1.5 percent provider rate increase for both the fixed pool and the capitated pool of the MHAP (see New Proposals section). The capitation rates that will be used by the department for at least the first two years of the contract already contain a 1.5 percent increase built into the rates. A major portion of the new proposal, $2,558,102 for the 1999 biennium, is earmarked for the capitated pool. This should be unnecessary given that the rates reflect the increase.

3) The Executive Present Law Budget contains $943,153 for "vacancy savings recovery" and $1,007,132 for a 1.5 percent pay plan for the institutional component of the MHAP fixed pool. This is different from the manner in which vacancy savings and pay plan funding was handled by the Executive Budget for all other state agencies. Other state agencies did not have vacancy savings restored to their present law budget nor did other state agencies have pay plan funding included within their present law budget. The employees of the state institutions will remain state employees; therefore, pay plan

funding for those employees should be handled in the same manner as all other state employees.

NATURAL RESOURCES AND COMMERCE

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

Fish, Wildlife and Parks	Natural Resources and Conservation
Environmental Quality	Agriculture
Livestock	Commerce

--------------Committee Members--------------

House	Senate
Representative Roger DeBruycker (Chair)	Senator Tom Keating (Vice-Chair)
Representative John Johnson	Senator Larry Baer
Representative William Wiseman	Senator Linda Nelson

--------------Fiscal Division Staff--------------

Roger Lloyd
Bob Tallerico
Cindy Weaver

--------------OBPP Representatives--------------

Shirley Moore
Doug Schmitz

5201 00

Agency Proposed Budget

Department of Fish, Wildlife & Parks

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	541.43	5.00	8.48	554.91	5.00	10.92	557.35	554.91
Personal Services	18,000,099	1,081,802	265,360	19,347,261	1,119,549	343,714	19,463,362	38,810,623
Operating Expenses	13,197,027	3,024,498	1,688,529	17,910,054	3,057,148	3,081,529	19,335,704	37,245,758
Equipment	984,947	(32,370)	65,000	1,017,577	(294,866)	65,000	755,081	1,772,658
Capital Projects	220,539	(220,539)	0	0	(220,539)	0	0	0
Grants	474,308	384,107	37,500	895,915	321,907	12,500	808,715	1,704,630
Benefits and Claims	4,795	15,000	0	19,795	15,000	0	19,795	39,590
Transfers	208,810	1,773,504	0	1,982,314	1,888,604	0	2,097,414	4,079,728
Total Costs	$33,090,525	$6,026,002	$2,056,389	$41,172,916	$5,886,803	$3,502,743	$42,480,071	$83,652,987
General Fund	407,592	21,024	0	428,616	16,800	0	424,392	853,008
State/Other Special	24,754,426	3,439,970	1,362,934	29,557,330	3,337,783	2,360,336	30,452,545	60,009,875
Federal Special	7,928,506	2,565,010	693,455	11,186,971	2,532,221	1,142,407	11,603,134	22,790,104
Proprietary	1	(1)	0	0	(1)	0	0	0
Total Funds	$33,090,525	$6,026,002	$2,056,389	$41,172,916	$5,886,803	$3,502,743	$42,480,071	$83,652,987

Mission Statement

Through our employees and citizen commission, to provide for the stewardship of the fish, wildlife, parks and recreational resources of Montana while contributing to the quality of life for present and future generations.

Agency Description

The Montana Department of Fish, Wildlife, and Parks is responsible for managing Montana's fish, wildlife, and recreational resources and providing outdoor recreational opportunities for Montanans. The department is responsible for a state park system that includes scenic, historical, cultural, and recreational resources. The department's operational programs are in seven divisions and seven regional field offices. The five-member FWP Commission provides policy direction on resource management, seasons, and use of department lands.

5201 00
Department of Fish, Wildlife & Parks — Biennium Budget Comparison

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	546.43	8.48	554.91	546.43	10.92	557.35	541.43	554.91
Personal Services	19,081,901	265,360	19,347,261	19,119,648	343,714	19,463,362	36,834,365	38,810,623
Operating Expenses	16,221,525	1,688,529	17,910,054	16,254,175	3,081,529	19,335,704	28,529,618	37,245,758
Equipment	952,577	65,000	1,017,577	690,081	65,000	755,081	1,839,419	1,772,658
Capital Projects	0	0	0	0	0	0	220,539	0
Grants	858,415	37,500	895,915	796,215	12,500	808,715	1,710,587	1,704,630
Benefits and Claims	19,795	0	19,795	19,795	0	19,795	19,795	39,590
Transfers	1,982,314	0	1,982,314	2,097,414	0	2,097,414	437,264	4,079,728
Total Costs	$39,116,527	$2,056,389	$41,172,916	$38,977,328	$3,502,743	$42,480,071	$69,591,587	$83,652,987
General Fund	428,616	0	428,616	424,392	0	424,392	817,523	853,008
State/Other Special	28,194,396	1,362,934	29,557,330	28,092,209	2,360,336	30,452,545	52,155,647	60,009,875
Federal Special	10,493,516	693,455	11,186,971	10,460,727	1,142,407	11,603,134	16,618,416	22,790,104
Proprietary	0	0	0	0	0	0	1	0
Total Funds	$39,116,527	$2,056,389	$41,172,916	$38,977,328	$3,502,743	$42,480,071	$69,591,587	$83,652,987

Agency Issues

Present Law Adjustments

In many present law adjustments, the executive is requesting increases to "restore the budget to the amounts authorized by the 1995 legislature". Present law represents the base year expenditures (fiscal 1996), plus any needed adjustments to maintain the same level of services provided in the base year. The amounts appropriated do not necessarily represent present law requirements. The legislature should carefully consider the requests to "restore the base" and base its decisions on whether the funding is needed to provide the same level of services provided in fiscal 1996.

By statute, the department is allowed the flexibility to transfer five percent of its appropriation authority between programs. The LFD analysis of the executive present law notes the instances where this authority was spent for something other than the purposes for which it was appropriated. In many cases, the legislature may want to restrict the appropriations in the 1999 biennium to prohibit the department from using it for any other purpose. If not used for the designated purpose, the authority reverts. This appropriating technique is also useful when the legislature is appropriating funds the receipt or expenditure of which is uncertain.

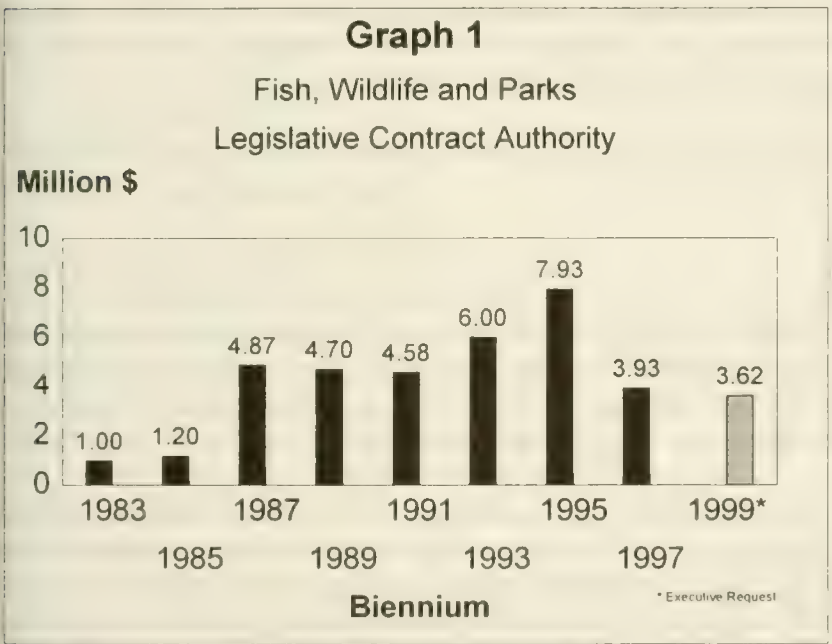
New Proposals

The executive is requesting program expansions totaling $5,559,132 and 10.92 new FTE for the 1999 biennium, including $3,706,578 from the general license account. In reviewing and discussing these new proposals, the legislature might consider the following: 1) prioritizing the general license account funding in new proposals with present law programs funded from the account. If programs in present law (that are of a lesser priority than the new proposals) are reduced, there will be no additional spending from the account; 2) maximizing the use of available federal funds to offset general license account money; 3) making eligible new proposals

contingent on federal matching funds; 4) restricting the appropriations if the legislature does not want the authority used for any other purpose; and 5) requesting performance measures so that the 1999 legislature can evaluate the effectiveness of the increased funding and determine whether or not to continue the funding.

Legislative Contract Authority

Legislative contract authority (LCA) provides a means by which the legislature appropriates additional federal and private funds the Department of Fish, Wildlife and Parks (FWP) receives after the legislature adjourns, thus eliminating the need for budget amendments. As shown in Graph 1, from fiscal 1982 when this mechanism was first established, through the 1997 biennium, FWP has received $34.2 million of LCA. The executive is requesting an additional $3.62 million ($3.57 million federal) for the 1999 biennium. Biennial LCA appropriations reached their highest level in the 1995 biennium, but were reduced in the 1997 biennium by the 1995 legislature. In fiscal 1996, the department spent $1.5 million federal and $185,000 state special funds, and established 43.17 FTE through LCA. However, because less LCA was appropriated by the 1995 legislature, the department's requests for budget amendments increased. To date (November 1996) in the 1997 biennium, OBPP has approved budget amendments for the department totaling $4.5 million and 23.47 FTE.



The two circumstances under which the legislature might want to consider LCA are when the availability of funds is uncertain at the time the legislature meets to set appropriations or when projects cannot be anticipated by the legislature or department. If these conditions are not met, the department could bring the projects and funding requests to the legislature for discussion and consideration for inclusion in HB 2. However, even if the conditions are met the department has other options available, including the budget amendment process or the budget amendment bill, to receive appropriations to spend unanticipated federal funds.

Much of the LCA requested in the Executive Budget is from fairly certain revenue sources and is for continuation of the same or similar projects. If approved for the 1999 biennium, some of these projects (such as the South Fork grizzly bear project and Montana rivers information system) will be on-going for at least ten years.

__Policy Issue__ - Does the legislature want to continue giving LCA authority?

The following are some legislative options:

1) Do not approve LCA. Direct the agency to go through the budget amendment process or the budget amendment bill to receive appropriations to spend unanticipated federal funds.

2) Do not approve LCA. Ask the agency to provide an amount for federally funded, on-going projects and appropriate that amount in HB 2.

3) Approve LCA. Include the following language: "The appropriations for legislative contract authority are subject to the following provisions:

a) LCA applies only to federal funds;

b) expenditures must be reported on state accounting records and kept separate from present law operations. In preparing the 2001 biennium budget for legislative consideration, the office of budget and program planning may not include the expenditures from this item in the present law base;

c) a report must be submitted by the department to the legislative fiscal analyst following the end of each fiscal year of the biennium. The report must include a listing of projects with the related amount of expenditures and FTE for each project; and

d) expenditures must not be made for on-going projects or with funds that could have been anticipated by the legislature."

<u>General License Account</u>

The general license account is FWP's largest single funding source. The single largest revenue source (89 percent) to the account is from hunting and fishing license fees. Since these fees are set by the legislature, the following discussion and issues scrutinize the fund balance and certain expenditures from the account. To more accurately align revenue with expenditures, the legislature could adjust fees.

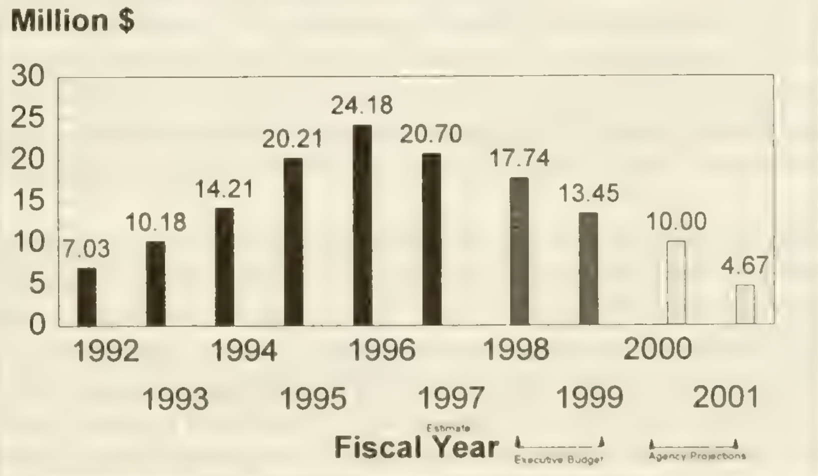
Even though total expenditures (operations and capital) have increased since fiscal 1991, the balance in the account has continued to grow. The growth is primarily due to increased license fee revenue. Table 1 shows that the fund balance reached $24.2 million at the end of fiscal 1996, an all time high. This balance consisted of $25.5 million of liquid cash and short-term investment pool (STIP) investments (plus some offsetting liabilities). The fund balance is 115 percent of yearly expenditures. The fund balance is also $7.5 million more than the balance projected by the executive prior to the last legislature. This difference is due to more revenue collected in fiscal years 1995 and 1996 than projected ($5.5 million), and a lower level of expenditure than appropriated by the legislature, primarily long-range building appropriations ($2.0 million). Table 1 also shows that based on the executive request for the 1999 biennium, the fund balance is expected to decrease to $13.4 million.

Table 1
FWP General License Account
1999 Biennium Executive Budget Request

	Actual Fiscal 1996	Appropriated Fiscal 1997	Executive Request Fiscal 1998	Executive Request Fiscal 1999
Revenue				
Beginning Balance	$20,211,545	$24,175,586	$20,702,245	$17,743,114
License Revenue	22,401,823	21,165,242	20,914,614	20,718,158
Other Revenue	2,717,042	3,109,003	1,975,900	1,786,752
Total Funds Available	$45,330,410	$48,449,831	$43,592,759	$40,248,024
Disbursements				
Program Expenditures	$20,046,753	$19,743,419	$20,298,919	$20,144,576
Continuing Capital Costs	580,033	4,181,701	0	0
LRB Projects	456,124	2,650,327	3,950,059	3,950,059
Pay Plan	0	721,783	246,079	353,879
New Proposals	0	450,357	1,354,588	2,351,990
Total Disbursements	$21,082,911	$27,747,587	$25,849,645	$26,800,504
Adjustments	(71,913)			
Ending Balance	$24,175,586	$20,702,245	$17,743,114	$13,447,521

General License Account Issues

Graph 2
Fish, Wildlife and Parks
General License Account Fund Balance



Declining Fund Balance **- Based on the executive budget request and agency projections, Graph 2 shows that the general license account fund balance will decrease from an all-time high of $24.2 million to $4.7 million by the end of fiscal 2001 - the lowest since fiscal 1981. The projected decline is due to: 1) declining revenues from fiscal 1996 levels; 2) new proposal expenditures totaling $3.7 million in the 1999 biennium and an expected $5.6 million in the 2001 biennium; 3) the largest capital project request ever from the account, totaling over $7.9 million in the 1999 biennium and an anticipated $3.0 million in the 2001 biennium; and 4) increases of 3 percent for operational and personal services costs. The fund balance assumes that all capital appropriations will be spent before the 2001 biennium - an unlikely occurrence since some capital appropriations have not been spent for 10 years (see *Capital Project Appropriations* issue below). Revenues are expected to decline over the next two biennia due to fewer mule deer and antelope license sales (due to declining populations) and a 5 percent yearly decline in fishing license sales (due to whirling disease).**

Based on the agency revenue and expenditure projections, the legislature appears to be facing license fee increases in the 1999 or 2001 session. License fees were last increased in the 1991 session and phased-in over the next two license years (SB 171). Based on a number of expenditure issues this session, the legislature can forestall a fee increase if actual appropriations from the general license account are less than the executive request. The executive is requesting the following: 1) a record request for capital projects; 2) new proposals totaling $3.7 million in the 1999 biennium that will require additional funding in the 2001 biennium in order to be completed as proposed by the executive; and 3) present law increases totaling $640,322 for the 1999 biennium over fiscal 1996 expenditures. In addition, statue is unclear regarding the variable-priced license program (HB 195), which may allow the legislature to use the greater than expected revenue to offset general license account expenditures (please see the HB 195 issue in the "Program Issues" section of the Field Services Division).

High Cash Balance - Money in the account is kept in highly liquid assets and earns interest at the STIP rate, which was 5.29 percent as of October 30, 1996. At the end of fiscal 1996, $25.5 million was in this form. If a portion of the money were kept in less liquid forms (longer-term securities), a higher interest rate and greater earnings could be achieved. The amount invested in longer-term securities depends on the amount of money not needed to pay immediate expenses. The Board of Investments has established the Trust Bond Pool in which this account could participate. An interest rate of 7.5 percent is guaranteed, but a loss of principal is possible. The board is also considering establishing a Government Bond Pool, specifically designed for state accounts with large amounts of money currently invested in STIP. The department can also request that the board buy intermediate securities (government bonds with one to three years left before maturity) in the name of the general license account. Rates would vary between 6.0 and 6.5 percent with no risk of loss of principal.

Capital Project Appropriations - The general license account may be thought of as the "general fund" of the department. If the fund balance is excessive, the legislature could consider reducing fees. In addition, prudent expenditures from the account will forestall the need for future license fee increases. One area where large amounts are appropriated from the account is capital projects. Appropriations for capital projects have become the largest single program expenditure from the account. For example, from the 1991 biennium to the 1995 biennium, capital appropriations averaged $1.5 million. In the 1997 biennium, $6.1 million was appropriated and for the 1999 biennium, the executive is requesting $7.9 million.

Although the executive is requesting more funding for capital projects from the account, the department does not complete projects in a timely manner. At the end of fiscal 1996, the department had not spent $6.8 million of general license account capital appropriations, $1.4 million of which was appropriated prior to the 1995 legislative session (please see Table 2). Some appropriations remain unspent after 10 years (such as that for the Creston Fish Hatchery). Not spending appropriations in a timely manner means the following: 1) projects the legislature expected to be completed have not yet been completed; 2) the scope, need, and cost of the project may have changed; and 3) the general license account fund balance is not accurately projected because the time when actual expenditures will occur is uncertain (for example: the $6.8 million of unspent appropriations are recorded in fiscal 1997 in Table 1, even though it is unlikely the department will spend this amount during that fiscal year).

Table 2
Fish, Wildlife and Parks
Continuing Appropriation Balances
General License Account as of FYE96

Fiscal Year Appropriated	Remaining Appropriation	Cumulative Total
1996	$5,424,618	$6,832,028
1995	158,394	1,407,410
1994	936,052	1,249,016
1991	81,948	312,964
1989	55,247	231,016
1988	25,877	175,769
1987	149,892	149,892
Total	$6,832,028	

Policy Issues

1) The legislature may want to specify the life of capital project appropriations. Currently, the appropriations continue until spent. Any specified time period must account for the lengthy process of capital projects and the delays that inevitably happen with complex projects. If projects were not completed within the specified time period the appropriation would revert and the money would become available for other projects. In the case of the general license account, fee increases could be forestalled or consideration given to fee reductions. If the department wanted the project to continue, it would have to re-justify the project to the legislature. The legislature would then be able to prioritize the old projects along with more current ones.

Legislative Options

a) Meet with the Long-range Building Subcommittee to discuss setting a time limit for capital project appropriations contained in HB 5.

b) Do not consider setting a life for capital project appropriations.

2) The legislature may want to decrease or eliminate past appropriations from the general license account for capital projects. Such an action may forestall fee increases or give cause for the legislature to consider fee reductions. The department could be asked to provide project status on projects not yet completed and to provide reasons why the project should not be terminated.

Legislative Options

a) Request that the department meet with the Long-range Building Subcommittee to justify unspent appropriations identified in Table 2.

b) In HB 5, amend previous long-range appropriation bills to reduce a portion of the continuing appropriations identified in Table 2.

c) In HB 5, re-direct a portion of the continuing appropriations identified in Table 2 to fund a portion of the executive capital request for the 1999 biennium and reduce the requested amount accordingly.

d) Do not consider decreasing or eliminating past capital projects appropriations from the general license account.

5201 01
Department of Fish, Wildlife & Parks
Program Proposed Budget

Administration & Finance Division

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	50.07	0.00	2.26	52.33	0.00	3.00	53.07	52.33
Personal Services	1,467,457	172,724	74,199	1,714,380	179,225	98,508	1,745,190	3,459,570
Operating Expenses	1,855,387	186,556	806,446	2,848,389	139,839	2,194,446	4,189,672	7,038,061
Equipment	207,922	(35,456)	15,000	187,466	(59,822)	15,000	163,100	350,566
Transfers	208,810	25,504	0	234,314	140,604	0	349,414	583,728
Total Costs	$3,739,576	$349,328	$895,645	$4,984,549	$399,846	$2,307,954	$6,447,376	$11,431,925
State/Other Special	3,359,058	157,813	669,265	4,186,136	229,358	1,621,884	5,210,300	9,396,436
Federal Special	380,517	191,516	226,380	798,413	170,489	686,070	1,237,076	2,035,489
Proprietary	1	(1)	0	0	(1)	0	0	0
Total Funds	$3,739,576	$349,328	$895,645	$4,984,549	$399,846	$2,307,954	$6,447,376	$11,431,925

Program Description

The Administration and Finance Division provides department-wide support for accounting, fiscal management, purchasing and property management, personnel, and federal aid administration. In addition, the Licensing and Data Processing Bureau provides information technology services to the agency, and administers the sale of hunting, fishing, and other recreational licenses.

The program work is mandated primarily in Title 17, Chapters 101, 102 and 105, MCA.

Funding

The Administration and Finance Division operating budget is funded from the general license account and from a portion of the indirect cost assessments on federal grants and non-federal accounts. The Department Management and Field Services divisions also are funded from these same indirect cost assessments. The rate for fiscal 1998 and fiscal 1999 from non-federal funds is 10 percent for operational expenditures and 4.6 percent for capital expenditures. These assessments are handled as a non-budgeted transfer to the general license account, from which all expenses are paid. The fiscal 1997 federal overhead rate of 17.2 percent is applied to federal grants, which include Pittman-Robertson and Wallop-Breaux funds and Corps of Engineers and U. S. Coast Guard grants. Legislative contract authority is funded with federal funds of $30,000 each year.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issue - The present law personal services increase of $167,724 fiscal 1998 and $174,225 in fiscal 1999 is misleading. In fiscal 1996, the department spent $85,379 for unbudgeted expenses which, if removed from the base, would increase the adjustments by that amount. In addition, the executive is requesting vacancy savings of $50,342 in fiscal 1998 and $50,542 in fiscal 1999. If personal services were fully funded, the adjustments would increase by these amounts.

5201 01
Department of Fish, Wildlife & Parks
Administration & Finance Division

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	167,724	174,225
02		Inflation/Deflation	(21,430)	(31,060)
03		Fixed Costs	85,157	36,514
		Total Statewide Adjustments	$231,451	$179,679
Significant Present Law Adjustments				
04	79197	Personal Computers For Gis	0	0
05	79198	Gis Software	0	0
06	79199	61 & 56 Personal Computers	0	0
07	91001	A&F Non-Discretionary Equip	0	0
08	91002	Change In License Structure	46,470	46,470
09	91003	Phased In Budget Modification	74,884	74,884
10	91004	Physical Inventory Of Property	0	5,755
11	91005	Reimbursement To The General Fund	10,265	16,066
12	91006	Vehicle Account Transfer	(34,496)	80,604
13	91007	Legislative Contract Authority	30,000	30,000
14	91008	Equipment Replacement	(35,456)	(59,822)
		Total Significant PL Adjustments	$91,667	$193,957
Other Base Adjustments			$26,210	$26,210
		Grand Total Present Law Adjustments	$349,328	$399,846

Present Law Adjustments/Issues

8) Change in License Structure - Due to declining wildlife populations, the FWP Commission eliminated over-the-counter (OTC) mule deer b and antelope doe/fawn licenses. OTC licenses are sold by license agents across the state who are reimbursed 50 cents for each license sold. In license year 1995, there were 25,093 OTC mule deer b and 20,715 antelope doe/fawn licenses sold. The budget is based on 75 percent of these hunters applying for a special permit that will cost $2 per application to process. The associated drawing fee will cover the additional processing costs. Since fewer licenses will be sold by license agents, commission expense is reduced by $23,000 per year. The net increase is $46,470 each year of the 1999 biennium.

LFD Issue - The department expects that hunters who normally buy OTC licenses will now apply for special license drawings. The additional costs include staff overtime ($5,000), computer processing, keypunching, supplies, and postage. General license account revenues will increase because of the processing fee charged to special drawings applicant. However, the decline in OTC license fee revenue is a factor in the declining general license account fund balance. (See the LFD General License Account Issues in the "Agency Issues" section.)

9) Phased in Budget Modification - The 1995 legislature approved a budget modification to implement the National Migratory Harvest Survey. This program is a federally-mandated directive funded with federal special revenue. The amount approved was $75,000 beginning in fiscal 1997. Since there were no expenditures in the 1996 base, a net present law adjustment of $74,884 each year of the 1999 biennium is requested.

LFD Issue - The federal Fish and Wildlife Service requires that by fiscal 1998, the department more intensively survey migratory bird hunters to provide improved harvest information to better manage populations. If the

survey is to be completed in fiscal 1998, no money should be appropriated in fiscal 1999 and the fiscal 1998 appropriation should be designated as one-time.

10) Physical Inventory of Property - The department is required by state policy to conduct a biennial physical inventory of department property. This occurs in the second year of the biennium so the costs are not reflected in the base. The fiscal 1999 adjustment of $5,755 is for employee travel to locations throughout the state to conduct the inventories.

11) Reimbursement to the General Fund - According to state policy, FWP must reimburse the general fund for services provided by other general funded agencies. Appropriation authority of $10,265 in fiscal 1998 and $16,066 in fiscal 1999 is needed to allow for the transfer of funds from a federal special revenue account to the general fund.

LFD Comment **- The amounts above are the increases in requested appropriation authority. A total of $68,251 in fiscal 1998 and $74,052 is being requested.**

12) Vehicle Account Transfer- This is authority to allow transfer between internal accounts at FWP. FWP will transfer license money to the vehicle proprietary fund in an amount equal to the increase in acquisition costs of replacement vehicles. Federal law allows only actual cost and not replacement cost to be included in the rate per mile assigned to each vehicle. In fiscal 1998, the transfer is a net decrease from the 1996 base of $34,496. In fiscal 1999 the transfer is a net increase from the 1996 base of $80,604.

LFD Comment **- A total of $174,314 in fiscal 1998 and $289,414 in fiscal 1999 from the general license account is being requested. These are the correct amounts to be used in determining revenue deposited to the vehicle proprietary account and for the legislature to use in setting rates.**

13) Legislative Contract Authority - The request is made in anticipation of the need to provide additional accounting, budgeting, personnel, and word processing support for new federal projects. These costs are funded with overhead dollars collected from the contracts. The request is $30,000 each year of the 1999 biennium.

LFD Issue **- See the LFD issue discussing LCA in the "Agency Issues" section. The adjustment should actually be $60,000 each fiscal year since the executive is actually requesting these amounts in federal funds. "Other Base Adjustments" should be decreased by $30,000.**

14) Equipment Replacement - Replacement equipment for the 1999 biennium is a net reduction of $35,456 in fiscal 1998 and $59,822 in fiscal 1999. The request is $172,466 in fiscal 1998 and $148,100 in fiscal 1999 for replacement of a gas furnace at the Custer Street shop in Helena, a keyless pivot gate for the warehouse complex in Helena, lateral files for payroll and personnel records, a scanner used to enter personnel information into the computers without rekeying the data, and replacement of personal computers.

Other Base Adjustments - Numerous dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

LFD Issue **- The federal funds portion of these adjustments should be reduced by $30,000 federal funds each fiscal year because of present law adjustment number 13.**

5201 01
Department of Fish, Wildlife & Parks **Administration & Finance Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Automated Licensing System			686,000	686,000			2,079,000	2,079,000
02	Data Processing Support	1.13		98,176	98,176	1.50		110,460	110,460
03	Gis Implementation	1.13		111,469	111,469	1.50		118,494	118,494
	Total For New Proposals	2.26		$895,645	$895,645	3.00		$2,307,954	$2,307,954

Executive New Proposals

1) Automated Licensing System - The 1993 legislature authorized funds to study the feasibility of an automated licensing system. Since that time the department held public meetings with license agents, sports clubs, and department personnel to provide information about the project and gather input. Under an automated system, license agents across the state would be connected to a communications web that would transport licensing information back and forth between a central licensing data base in Helena and computer work stations at the agents' places of business. The total cost to implement the automated licensing system is $3.3 million. Cost projections to operate the system range from $600,000 to $1,200,000. The range is provided because telecommunication and system support costs are uncertain until final system design. Once the system is fully operational in fiscal 2001 there are estimated savings of approximately $894,000 per year.

The following table summarizes anticipated costs and savings over the next five years.

Description	FY98	FY99	FY2000	FY2001	FY2002
System Development	$686,000	$1,233,000	$686,000	$686,000	$0
Operations Costs		$423,000 to $846,000	$600,000 to $1,200,000	$600,000 to $1,200,000	$600,000 to $1,200,000
Savings to FWP and License Agents			$447,000	$894,000	$894,000

The biennial request is $2,765,000 comprised of $1,919,000 for development costs and $846,000 for operating the system.

LFD Issue **- The executive is requesting funding in the 1999 biennium to partially design, develop and implement new computer systems by March 1999. The general license account provides two-thirds of the funding ($1,852,550), with the remainder provided by federal funds. Additional funding would be requested from subsequent legislatures to finish the systems and operate them. The department intends to hire contractors to do all the work necessary to implement and operate the new systems through fiscal 2001. The department's intent is to devise new automated systems for licensing, violators, hunter education, license drawing, surveys, and other minor systems. The department does not plan to include this system in the executive's proposal to bond for major computer systems statewide.**

Benefits and Costs

The benefits of an automated licensing system are both quantifiable and non-quantifiable. Quantifiable benefits include identifiable cost savings for the department and license agents. Benefits to license agents are discussed below under Future Savings and License Agents. Non-quantifiable benefits include the capability for better management of fish and wildlife resources, better law enforcement, greater convenience, greater efficiency, and better communication. These benefits will be realized by the department, license agents, and license buyers. Are the quantifiable and non-quantifiable benefits to the department worth the added costs? Table 3 shows the costs and savings over two biennia as estimated by the department.

Table 3
Fish, Wildlife and Parks
Automated Licensing System
Value of Non-Quantifiable Benefits

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
Worst Case					
Costs	($686,000)	($2,079,000)	($1,870,000)	($1,870,000)	($1,184,000)
Savings	0	0	246,000	492,000	492,000
Non-quantifiable Benefits*	686,000	2,079,000	1,624,000	1,378,000	692,000
Total	$0	$0	$0	$0	$0
Best Case					
Costs	($686,000)	($2,079,000)	($1,870,000)	($1,870,000)	($1,184,000)
Savings	0	230,535	608,657	890,313	1,160,313
Non-quantifiable Benefits*	686,000	1,848,465	1,261,343	979,687	23,687
Total	$0	$0	$0	$0	$0

* Calculated so that the sum of benefits, savings, and costs is zero

Because exact costs are not known at the time this is written, best and worst case scenarios are presented. The worst case includes: 1) possible savings to the department including reduced operating costs and increased interest earnings from more timely revenue deposits; and 2) cost assumptions that 19 percent of license agents would require the more expensive dedicated communication line and that the department would continue to contract for system operation after in fiscal 2001. The best case includes the same costs and savings as the worst case, but adds possible savings from cheaper state SummitNet pricing for the communication lines, department support of the system in fiscal 2001(which is cheaper than hiring a contractor), and payment of fees ($0.07 per license) by licence agents. For each case, a dollar amount was assigned to "Non-quantifiable Benefits" so that the net dollar impact equaled zero. This represents the least amount of non-quantifiable benefits that would have to be achieved through the new proposal to make it a "paying" proposition. The legislature would have to conclude that, in the worst case, the non-quantifiable benefits must be worth at least $2.8 million in the 1999 biennium and $3.0 million in the 2001 biennium before approving the proposal.

Companion Legislation

(The following analysis is based on a preliminary copy of the bill. The introduced bill may differ.) The department is planning to submit legislation to make the statutory changes necessary to implement the new systems. Substantive amendments include the following:

1) changing the basis for payment of the commissions to license agents from a per-license-sold basis to a per-transaction basis. The department feels that total commission payments should not be affected by this change;

2) allowing the department to charge license agents a fee up to $0.07 for each transaction;

3) allowing the department to charge an installation fee to new agents added after passage of the bill;

4) allowing the department to sell or lease equipment to license agents; and

5) giving the department rule-making authority to implement 87-2-903, MCA, as amended by the bill. This section (as amended) would establish the compensation, fees, and duties of license agents.

Agency staff state that passage of the companion legislation is essential to the new proposal. If the companion legislation is not approved, the legislature should not approve the new proposal. Likewise, if the new proposal is not approved, the companion legislature should not be approved. If the legislature approves installation fees to be charged only to new license agents, it might be perceived as being discriminatory and unfair, and providing disincentives for additional agents and protection for existing agents.

Policy Issue

A per-transaction fee charged to license agents would show that agents are contributing to the funding of the system. However, since by statute the department pays license agents $0.50 per license sold, the same effect could be achieved by lowering the commission to $0.43. Lesser costs would mean more revenue in the general license account to fund system costs.

Legislative Option - Subcommittee members could recommend to their respective assemblies that the introduced bill be amended to strike the fee and decrease commissions from $0.50 to $0.43. The agency's HB 2 request for license agent commissions could then be reduced by $71,313 each fiscal year if the legislature wanted to make the change beginning fiscal 1998.

<u>Future Costs</u>

If this proposal is approved, funding beyond the 1999 biennium will be needed to complete the system. It is anticipated that $1,372,000 will be needed in the 2001 biennium for further software development. Once fully operational (after the 2001 biennium), the department estimates that ongoing costs will be between $587,000 (if the department takes over operation) and $1,184,000 (if a contractor continues to operate the system). Does the legislature want to begin a project whose completion relies on funding from a future legislature?

<u>Future Savings</u>

Although additional funding beyond the 1999 biennium will be needed to complete it, the system will result in program operating and personal services savings. The department has identified $492,000 as its potential annual cost savings and personnel reductions of 3.0 FTE beginning the middle of fiscal 2000. License agents will save $402,100. In addition, quicker deposit of license revenue will increase interest earnings by possibly $100,000 per year.

Legislative Options

1) Since savings are projected to occur in the 2001 biennium when the system becomes fully operational, no savings are anticipated in the 1999 biennium. If the new system is approved, the legislature could express in HB 2 language the legislature's recognition of future savings and the amount to be saved. The legislature could direct the department to submit up-to-date cost savings estimates and any requests for additional funding to the 1999 legislature.

2) A department study found that the costs to license agents of issuing a license will decrease from \$0.65 to \$0.28 per license. In the separate companion legislation, the department is not proposing a decrease in commissions. The legislature may want to consider reducing commissions to \$0.28 per license (see options under License Agents).

If Not Approved

The four systems that would be replaced if this new proposal were approved are old and have been extensively modified over a number of years. The systems have not kept pace with the rapid advancement of technology. If this new proposal is not approved, the department intends to request a replacement new proposal to improve the existing systems. The cost is estimated at \$350,000 per year for the next four years (\$1.4 million in total), funded entirely from the general license account. In essence, these improvements would constitute a scaled-down, piecemeal approach to the Automated Licensing System new proposal.

License Agents

License agents provide an essential service for the department by issuing hunting and fishing licenses and distributing regulations. Agents are compensated \$0.50 for each license sold. As part of the department's research into this new proposal, a study was funded to determine what savings an automated licensing system would give the department and license agents. Savings to licenses agents were estimated at \$402,100. The study also found that the present cost to license agents of issuing a license was \$0.65. On a per-license basis, the savings with the proposed system would reduce the issuence cost to \$0.28. In recognition of this, the department is introducing legislation to allow it to charge a fee to license agents of up to \$0.07 per license issued. An issue was raised with this on preceding pages under Companion Legislation and options were presented.

However, if the legislature wanted to base license agent commissions strictly on the cost of issuing a license, the commission could be reduced to \$0.28 if the new proposal is approved. Such a reduction would result in estimated savings of \$224,128 each year in general license account money. If the new proposal is not approved, the commission could be increased to \$0.65. Such an increase would result in estimated additional expenditures of \$152,814 each year in general license account money.

Legislative Options

1) If the new proposal is approved, the legislature could consider amending companion legislation introduced by the department to reduce commissions paid to license agents to \$0.28. The Executive Budget could be reduced by \$224,128 each year if the legislature wanted to make the change beginning fiscal 1998.

2) If the new proposal is not approved, the legislature could consider introducing a committee bill to increase commissions paid to license agents to $0.65. The Executive Budget request could be increased by $152,814 each year if the legislature wanted to make the change beginning fiscal 1998.

3) The legislature could leave the commission paid to license agents at $0.50 per license.

House Bill 2 Options

In addition to language in HB 2 concerning future costs, the legislature may also want to consider restricting any appropriations for this new proposal. Since this new proposal will cost a large amount of money and there are still uncertainties about portions of the proposal, the legislature could restrict the appropriation in HB 2 so that the authority would not be used elsewhere. The legislature could also designate the appropriations as one-time so they would not included in the 2001 biennium base budget.

Availability of Personal Information

One of the selling points for the new licensing system is that personal and historical information on each licensee would be readily available. Although this is a benefit, it may also be perceived as a detriment by the licensees. Does the legislature want to limit who, how and when this information can be accessed, used, or shared? Do statutes need to be updated to address this issue? The following are possibilities for the legislature to consider:

1) According to department staff, the department is considering using the system to provide background checks, as required by the "Brady Bill" for purchasers of firearms.

2) Hunting or fishing license applicants could be denied their licenses or have licenses suspended if the system receives a "flag" when querying other databases, such as motor vehicle, child support, other states' licensing databases, etc.

3) The system would make it easy to compile demographic statistics on licensees to help in selling mailing lists. The department has discussed implementing a mail marketing program.

4) The system would be used to share information with other states under the Interstate Wildlife Violator Compact (SB 269 from the 1995 session). Under this compact, suspension of a violator's license in one state would result in the suspension of the violator's licenses in other states.

Other Issues for Consideration

Although the department has done extensive research and preliminary work in developing this new proposal, much was still uncertain at the time this was written. The legislature may want to ask the department for updated information. The following points and questions are raised to assist the legislature in its consideration and deliberation of the request before reaching a decision. The legislature may want the department to respond to the following:

1) How easily can the new licenses be counterfeited?

2) Can the system, which is funded in part with federal DJ-PR funds, be used by the Park Division without jeopardizing all federal funding?

3) Will other users or uses of the system, such as PHHS, Department of Justice, other states, game farm licensees, Parks Division, etc., be charged for their use? Should the companion bill contain a charge for system use?

4) The database would instantly identify certain fish and game law violators at the license agent's establishment. Will these agents become enforcers of the state's laws?

5) The system will provide a more credible tool to investigate license fraud and may initially identify a large number of fish and game law violators. Is the Law Enforcement Division capable of following through on this? How does the division's performance based budget address this possibility?

6) The system would provide a valuable tool to the commission in its efforts to manage the state's population of game and fish. Management on a smaller level and with much more detail would be possible. Does the legislature want to develop a system to make it easier to implement more detailed, complex regulations such as preference system drawings, waiting periods, licensing for different combinations of hunting areas, types of weapon, species, sexes, season lengths, limits, numbers of licenses, special licenses, etc.?

2) <u>Computer Support For Regional Offices</u> - An additional 1.13 FTE, contracted services, and interns in the amount of $98,176 in fiscal 1998 and $110,460 in fiscal 1999 are requested to increase data processing support for the department.

***<u>LFD Comment</u>* - The division is also requesting funding to update and replace major systems in the department. (See the analysis of the Automated Licensing System new proposal.) If the funding is approved, the department would realize substantial savings, including the elimination of 3.0 FTE. The legislature may want to ask the department how this new proposal would interact with the automated licensing system.**

3) <u>Geographic Information System Implementation</u> - The proposal is to establish a geographic information system (GIS) coordination unit. The GIS unit will develop the department policies that guide the use of GIS; determine priority GIS applications; establish framework for coordination in GIS data development and management among the various programs that use the technology; guide the development of standards for data sharing among various state and federal natural resource management agencies; guide the development of standards for future purchase of GIS hardware/software; represent FWP on the Natural Resource Information System (NRIS) advisory council and the Information Technology Advisory Council (ITAC) GIS task group; and establish a framework for long-range planning and budgeting for GIS. The GIS implementation request is for 1.13 FTE GIS coordinator and GIS specialist, operating, and equipment for a total of $111,469 in fiscal 1998 and $118,494 in fiscal 1999.

***<u>LFD Comment</u>* - The department provides support to the State Library for the NRIS and the Natural Heritage Program. The Executive Budget requests $50,000 each year for these purposes. Any new service provided by this new proposal would be in addition to those already provided by the State Library.**

The department has received appropriations in the past for similar GIS purposes. The 1991 legislature approved a one-time budget amendment of $90,000 for the 1993 biennium. The 1993 legislature approved

$90,000 for the 1995 biennium, some of the expenditures of which are on-going in the Department Management Division's base. The appropriations were to: 1) purchase data from the U.S. Geological Survey; 2) purchase computer and plotter hardware and software; 3) provide training and travel for staff; and 4) grant the University of Montana $10,000 each year for a U.S. Fish and Wildlife Service analysis project.

Executive Language Recommendation

The following language is recommended for HB 2:

> "Item X contains $686,000 in fiscal 1998 and $2,079,000 in fiscal 1999 which is a biennial appropriation for the automated licensing system that may be combined and spent in either year."

LFD Issue **- This language references the Automated Licensing System new proposal. If the executive seeks a biennial appropriation, the entire $2,765,000 could be requested in fiscal 1998 and designated as a biennial appropriation. If the legislature concurs, this would provide a line-item in HB 2 for this purpose that the legislature could also restrict to this purpose and designate as one-time (see the LFD analysis of this new proposal). The proposed language is unnecessary.**

5201 02
Department of Fish, Wildlife & Parks — **Field Services Division**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	36.66	2.00	0.88	39.54	2.00	1.17	39.83	39.54
Personal Services	1,206,595	71,611	29,878	1,308,084	72,677	39,732	1,319,004	2,627,088
Operating Expenses	1,764,942	1,889,825	133,037	3,787,804	1,887,103	133,037	3,785,082	7,572,886
Equipment	2,200	13,150	0	15,350	10,600	0	12,800	28,150
Grants	0	0	0	0	0	0	0	0
Benefits and Claims	4,795	15,000	0	19,795	15,000	0	19,795	39,590
Total Costs	$2,978,532	$1,989,586	$162,915	$5,131,033	$1,985,380	$172,769	$5,136,681	$10,267,714
State/Other Special	2,425,003	1,950,523	162,915	4,538,441	1,911,025	172,769	4,508,797	9,047,238
Federal Special	553,529	39,063	0	592,592	74,355	0	627,884	1,220,476
Total Funds	$2,978,532	$1,989,586	$162,915	$5,131,033	$1,985,380	$172,769	$5,136,681	$10,267,714

Program Description

The Field Services Division provides services in five areas. The Game Damage program provides assistance to landowners in minimizing impacts of game animals to their property and crops. The Design and Construction Bureau provides architectural and engineering services for construction and maintenance projects at state parks, state fishing access sites, and wildlife management areas. The Aircraft Unit provides aerial mountain lake surveys and fish planting, wildlife surveys, wildlife capture and marking, and transportation for the department. The Landowner/Sportsmen Relation and Block Management programs establish and maintain communication with user and resource-based organizations and individuals. They also administer the Livestock Loss Reimbursement program and the Block Management program, which provides habitat and recreational access on private property. The Land Unit is responsible for the real estate functions of the department, including acquisition and disposal of real estate and real property and management of all permanent land records and cabin leases.

The program work is mandated in Titles 23 and 87, MCA.

Funding

The Field Services Division's primary state special funding sources are from variable-priced hunting license sales and the general license account, with lesser amounts from coal tax trust interest and wildlife habitat trust interest. Federal funds consist of Pittman-Robertson and Wallop-Breaux funds, as well as this division's share of the indirect cost assessments on federal grants and non-federal accounts. The proposed rates for fiscal years 1998 and 1999 from non-federal funds is 10 percent for operational expenditures and 4.6 percent for capital expenditures. These assessments are handled as a non-budgeted transfer to the general license account, from which all expenses are paid. The fiscal 1997 federal overhead rate of 17.2 percent is applied to federal grants, which include Pittman-Robertson and Wallop-Breaux funds, and of Engineers and Coast Guard grants.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5201 02 Department of Fish, Wildlife & Parks Field Services Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	71,611	72,677
02		Inflation/Deflation	42,812	32,302
03		Fixed Costs	5,142	6,224
		Total Statewide Adjustments	$119,565	$111,203
Significant Present Law Adjustments				
04	91002	Fs Non-Discretionary Equip	0	0
05	91003	Hunter Enhancement Increase	1,141,893	1,139,378
06	91005	Surveys And Appraisals	21,876	21,876
07	91006	Land Leases	29,489	41,489
08	91008	Replacement Equipment	13,150	10,600
09	91009	Restore Hunter Access Levels	660,834	660,834
		Total Significant PL Adjustments	$1,867,242	$1,874,177
Other Base Adjustments			$2,779	$0
		Grand Total Present Law Adjustments	$1,989,586	$1,985,380

LFD Issue **- The present law personal services increase of $71,611 in fiscal 1998 and $72,677 in fiscal 1999 is misleading. In fiscal 1996, the department spent $76,373 for unbudgeted expenses which, if removed from the base, would increase the adjustments by that amount. In addition, the executive is requesting vacancy savings of $39,454 in fiscal 1998 and $39,489 in fiscal 1999. If personal services were fully funded, the adjustments would increase by these amounts.**

5) Hunter Enhancement Increase - HB 195, passed by the 1995 legislature, expanded the existing Block Management Program (public hunting on private land) by providing for financial incentives to landowners who allow free, public hunting. HB 195 also granted the FWP Commission the authority to set a variable priced (market-based) price for big game combination licenses for non-resident clients of outfitters. The intent was to select a price that would result in demand for these licenses meeting the current supply provided in law. The additional revenue from the sale of these licenses and federal Pittman-Robertson funds provide the funding for the expanded Block Management Program.

Revenue from the first year of the variable priced non-resident licenses exceeded projected revenue by about $1 million. The program was not fully implemented in the base year and the majority of the landowner incentive payment contracts for the 1996 hunting season were negotiated in fiscal 1997. The $2.24 million request allows the department to continue the level of landowner incentive payments that has been contracted for the 1996 hunting season into the 1999 biennium. The commission has tentatively adopted prices for the 1997 hunting season that would increase revenues by an additional $336,000 annually. If the commission adopts these prices, the executive will request an increase in authority of $336,000 each year of the biennium for landowner incentive payments.

LFD Comment **- See the LFD issue House Bill 195 in the "Program Issues" section for a discussion of HB 195 and the block management programs.**

6) Surveys and Appraisals - A request of $21,876 each year of the biennium is to cover contracts for archeological surveys, disabled access assistance, land appraisals, and engineering assistance.

7) Land Leases - Land lease rates that the department pays to private landowners are expected to increase by ten percent over the biennium or $5,489 each year. Tax liabilities are expected to increase by $24,000 in fiscal 1998 and $36,000 in fiscal 1999 due to a combination of general increases in taxes, special improvement district assessments, and additional acquisition

of land.

LFD Comment **- The executive is requesting a total of $314,725 in fiscal 1998 and $326,725 for taxes and assessments, and $60,379 each fiscal year for land leases.**

8) Replacement Equipment - The biennial replacement equipment request of $15,350 in fiscal 1998 and $12,800 in fiscal 1999 includes three bear traps, two high-band radios to provide radio communication for use by block management personnel in the field, a CAD jet printer plotter, color copier used by Region 7 to produce color maps for the block management program, and a replacement scanner. The net increase in equipment is $13,150 in fiscal 1998 and $10,600 in fiscal 1999.

9) Restore Hunter Access Levels - It took several months to develop ARM rules and it was not possible to get all of the interested landowners enrolled prior to the end of fiscal 1996. The price of the licenses for the 1996 season was set higher than originally anticipated, resulting in an accumulated fund balance. Base adjustments in supplies, materials, travel, and contracts in the amount of $660,834 each year of the biennium re-establishes the program at fiscal 1997 levels authorized by the 1995 legislature. In addition, 10.63 FTE from the existing Block Management Program in the Field Services Division were moved to the new expanded program. Compensation to landowners who allow public access to their private land for livestock loss due to hunters in the amount of $15,000 in each year of the 1999 biennium is requested to bring the program to the fiscal 1997 levels.

LFD Comment **- See the LFD issue House Bill 195 in the "Program Issues" section for a discussion of the HB 195 and block management programs.**

Other Base Adjustments - Numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

5201 02
Department of Fish, Wildlife & Parks — **Field Services Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Land Agent	0.38		19,487	19,487	0.50		23,484	23,484
02 Statewide Wildlife Damage Pgm			100,000	100,000			100,000	100,000
03 Public Wildlife Interface Mgmt	0.50		43,428	43,428	0.67		49,285	49,285
Total For New Proposals	0.88		$162,915	$162,915	1.17		$172,769	$172,769

Executive New Proposals

1) Land Agent - A 0.38 FTE in fiscal 1998 and 0.50 FTE in fiscal 1999 is requested to provide support to the land acquisition program. The workload associated with negotiations to purchase conservation easements has impacted the ability of the land unit to provide services necessary to carry out real estate demands to manage existing department lands. The request is for $19,487 in fiscal 1998 and $23,484 in fiscal 1999 for personal services and operations.

LFD Comment **- Currently, the Lands Section has 4.5 FTE.**

2) Statewide Wildlife Damage Program - The department is required to respond to all big game damage complaints and to

provide game damage assistance to landowners who meet the requirements associated with the law. Mild winters and changes in land ownership have resulted in increased game damage problems. The amount of $100,000 each year of the biennium will bring the program up to expenditure levels of the 1997 biennium and provide for anticipated increases in the 1999 biennium.

LFD Issue **- Expenditures in the game damage program have increased 6.11 percent each year from fiscal 1990 to 1996 (Table 4). For the 1997 biennium, the 1995 legislature appropriated $284,763 for fiscal 1996 ($263,388 was spent) and $294,763 for fiscal 1997. The department did not spend $21,375 of its fiscal 1996 appropriation, but used $17,500 of its general operating appropriation to fund personal services costs. The executive present law for the 1999 biennium contains $263,388 each fiscal year for game damage. Approval of this new proposal would provide appropriations of $363,388 each year from the general license account, a 38 percent increase from fiscal 1996 expenditures.**

Department representatives state they "have been focusing on long-term solutions to chronic problem areas by providing materials to construct hay stack yards and by using hunting season structure to address population size". Solutions include early and late season hunts and additional game damage seasons. The department was unable to provide statistics on the success of these hunts. About 100 kill permits per year are issued to landowners who are experiencing game damage. Over the last seven years, more than $1.6 million has been spent to address the problem of game damage. The legislature may want to ask the department about the effectiveness of the program and when long-term solutions will result in lower expenditures. At the time of this writing, the game damage program was undergoing a performance audit. The legislature may want to ask the department to respond to the audit findings and recommendations.

Table 4
Field Services
Game Damage Expenditures

Fiscal Year	Amount
1999*	$363,388
1998*	363,388
1997	294,763
1996	263,388
1995	283,970
1994	250,617
1993	243,999
1992	203,795
1991	188,053
1990	184,517
Total (through 1996)	$1,618,339
Average Annual Increase: 1990-1996	6.11%

*Executive request-present law and new proposal

3) Public Wildlife Interface Management - A 0.50 FTE in fiscal 1998 and 0.67 FTE in fiscal 1999 is requested in an effort to combine resources with local governments and work cooperatively to raise awareness of the responsibilities associated with urban expansion into wildlife habitats The emphasis will be placed on how to live with wildlife by providing information and producing educational materials related to the importance of self-sustaining native fish and wildlife populations, prevention of wildlife conflicts, and proper camping/recreation habits. The request is for $43,428 in fiscal 1998 and $49,285 in fiscal 1999.

LFD Issues **- Three issues are raised with the request.**

1) The department has not yet formed any partnerships with local governments to jointly fund the positions. The legislature may want to consider appropriating the funding contingent on the formation of such partnerships and the allocation of funding from local governments.

2) The program's effort is to focus on education and provision of information. If approved, the legislature may want to budget the new program in the Conservation Education Division.

3) The executive funds the entire proposal with money from the general license account. To the

extent that part of the effort will be directed toward education on proper camping/recreation habits, the legislature may wish to ask the department if this is an appropriate use of hunting and fishing license money. Federal funds may be jeopardized if hunting and fishing license money is used improperly.

Program Issues

House Bill 195

Since HB 195 involves multiple divisions, this issue covers both the Field Services and Law Enforcement divisions. Most of the activity takes place in the Field Services Division.

Background

HB 195 (which terminates October 1, 2001), passed by the 1995 legislature, changed the prior policy of license fees being set only by the legislature. The legislation authorized the Fish, Wildlife and Parks Commission to set fees on an average (over five years) of 5,500 outfitter-sponsored, non-resident big game combination B-10 licenses and 2,300 deer combination B-11 licenses. The legislation also increased the number of nonresident deer combination licenses that could be sold from 6,000 per year to 6,600 per year. The bill created voluntary hunter management and hunting access enhancement programs (through October 1, 2001) to promote public access to private land for hunting purposes. Incentives for enrolling in the programs are cash payments, a sportsman license (for residents), or a big game combination license (for non-residents).

The commission increased the fees for the two types of outfitter-sponsored licenses for the 1996 hunting season. The department used a portion of the additional money from increased fees to fund the programs in fiscal 1996. The department spent $63,315 of the $1,113,349 appropriated to fund operating costs and to hire 4.0 FTE. In fiscal 1997, $1,538,653 is appropriated to expand the program and hire 9.0 FTE.

Based on one year of operation for this new program and the changes proposed in the Executive Budget for the 1999 biennium, the following issues are raised for legislative consideration.

Funding Switch

Although statute mandates that funding switches be considered as a new proposal, the executive present law budget switches the funding of the block management program in the Field Services Division from the general license account to revenue raised from variable-priced licenses. The executive then combines it with the HB 195 programs. This action has policy implications the legislature needs to consider. Table 5 shows both programs as funded in the 1997 biennium and the executive request for the 1999 biennium.

Although the programs are very similar, HB 195 programs are funded from a different funding source. This source terminates October 1, 2001. Combining the programs may result in greater future expenditures from the general license account. When the additional revenue source terminates in 2001, the large program spending increases proposed in the Executive Budget and funded by HB 195 money must either be funded from the general license account or the program will have to be reduced. Program reductions would be easily identifiable if the budgets were kept separate.

Table 5
Field Services and Law Enforcement Divisions
Combined HB195 and Block Management-Executive Budget
Executive Present Law *

	Actual Fiscal 1996	Appropriated Fiscal 1997	Executive Budget Fiscal 1998	Executive Budget Fiscal 1999
Block Management				
FTE	9.00	9.00	17.63	17.63
Expenditures	$1,136,764	$698,625	$3,357,530	$3,337,728
Funding				
General License Account	472,004	454,106	0	0
Variable Priced Licenses	434,221	0	3,072,440	3,041,234
Federal	230,539	244,519	285,090	296,494
HB195 (Hunter Access)				
FTE	4.00	9.00		
Expenditures	120,953	1,538,653		
Funding				
Variable Priced Licenses	120,953	1,538,653		
Total				
FTE	13.00	18.00	17.63	17.63
Expenditures	1,257,717	2,237,278	3,357,530	3,337,728
Funding				
General License Account	472,004	454,106	0	0
Variable Priced Licenses	555,174	1,538,653	3,072,440	3,041,234
Federal	230,539	244,519	285,090	296,494

* Not included are budget amendment expenditures of $444,999 federal funds in fiscal 1996 and appropriations of $593,751 in fiscal 1997.

Policy Issue - Does the legislature want to combine the budgets of these programs?

Legislative Options

1) Combine the programs. Express the legislature's intent to either fund the expanded hunter management program from the general license account once HB 195 terminates or reduce program expenditures.

2) Do not combine the programs. Express the legislature's intent that the department keep funding of HB 195 expenditures separate from the funding of other expenditures.

Use of Available Funds

The Executive Budget requests substantial present law increases in both the Field Services and Law Enforcement divisions. Revenues in the 1997 biennium are expected to be $5,925,806 or $3,225,806 more than estimated by the HB 195 fiscal note. The department estimates revenues will be $6.4 million in the 1999 biennium. However, based on a higher price for the non-resident deer combination license adopted by the commission at its December meeting, an additional $672,000 may be available in the 1999 biennium. The executive proposes to spend those funds as well. (See present law adjustment number 4.) The Executive Budget requests $2.1 million more than the amount spent in fiscal 1996 (and $1.12 million more than the amount appropriated in fiscal 1997) using the additional revenue from variable-priced licenses. Because

statute is unclear on the deposit and use of revenue from variable-priced licenses (see the HB 195 Clarification issue below), excess revenue could be deposited to the general license account, thus forestalling future license fee increases.

Policy Issue - Does the legislature want to expand HB 195 programs by using increased revenues, or use some of the increased revenues to reduce the general license account imbalance?

Restricted Appropriations

Past appropriations for HB 195 were used for purposes not appropriated by the legislature, including: 1) $100,000 for personnel upgrades and vacancy savings in the Field Services Division; and 2) $10,000 as a grant to MSU for a wildlife extension specialist. Large increases in appropriations are being requested by the executive. By restricting the appropriations, the legislature is assured that the appropriations will only be used for the stated purpose.

Legislative Policy - Does the legislature want to restrict the appropriations for block management/HB 195?

Legislative Option - Make line item appropriations for HB 195 and/or block management programs and restrict them.

HB 195 Clarification

Does the legislature want to clarify HB 195 statute? Statute is unclear on a number of important points. The department is not proposing any such legislation. The following points are raised for legislative consideration:

1) Statute limits the department to a yearly average of not more than 5,500 B-10 and 2,300 B-11 licenses sold over five years at the variable prices. Table 6 is included to track the number of licenses sold in the five-year period from license years 1996 through 2000. The table should be updated in future budget analyses.

Note that since HB 195 terminates October 1, 2001, there are six licensing periods in which variable prices can be set. The sixth licensing period does not fit under the five year average requirement because the program terminates seven months into the first license year of the next five year period.

Table 6
House Bill 195
Variable Priced Licenses Sold*

	Licensing Year	B-10 Licenses Sold	Price	B-11 Licenses Sold	Price
1996	Mar. 1996-Feb. 1997	5,500	$835	3,114	$515
1997	Mar. 1997-Feb. 1998	Unknown	$835	Unknown	$675
1998	Mar. 1998-Feb. 1999	Unknown	Unknown	Unknown	Unknown
1999	Mar. 1999-Feb. 2000	Unknown	Unknown	Unknown	Unknown
2000	Mar. 2000-Feb. 2001	Unknown	Unknown	Unknown	Unknown
	Five-year Average	Unknown	Unknown	Unknown	Unknown
2001	Mar. 2001-Oct. 2001	Unknown	Unknown	Unknown	Unknown

* Price to be set by the Fish, Wildlife and Parks Commission so that no more than the following average number over five years is sold:
1. Outfitter sponsored non-resident big game combo (B-10)-5,500
2. Outfitter sponsored non-resident deer combo (B-11)-2,300

Does the legislature want to amend the termination date of section 87-1-268, MCA (which gives the authority to the commission to set the prices on certain B-10 and B-11 licenses) to March 1, 2001 so that variable fees can only be set in five license years? If changed, the revenue raised in license years prior to license year 2001 would be available to fund program costs until the program terminates October 1, 2001.

Legislative Options

A) Submit a committee bill amending the termination date of 87-1-268, MCA, to March 1, 2001.

B) Do not amend the termination of 87-1-268, MCA.

2) Statute is silent on the disposition of any unspent and unobligated money that remains after October 1, 2001. Does the legislature want such money to be deposited in the general license account?

Legislative Options

A) Amend 87-1-268, MCA, to direct any unspent and unobligated fund balance at termination to be deposited to the general license account.

B) Do not amend 87-1-268, MCA.

3) Statute is unclear on the account in which revenue from the sale of variable-priced outfitter sponsored licenses is to be deposited. Should it be the general license account or a different account? The department has chosen to establish a new state special revenue account.

Legislative Options

A) Amend 87-1-268, MCA, to require that the money that funds HB 195 programs be deposited in the state special revenue fund separate from the general license account.

B) Amend 87-1-268, MCA, to require that the money that funds HB 195 programs be deposited to the general license account in the state special revenue fund.

C) Do not amend 87-1-268, MCA.

4) Statue is unclear as to the use of the revenue from variable-priced outfitter-sponsored licenses. Is it to be used for HB 195 programs? Is it to be used for block management programs? Is it to be used for general fish and wildlife activities?

Legislative Options

A) Amend 87-1-268, MCA, to require that the money raised by variable-priced licenses be used only to fund HB 195 programs.

B) Amend 87-1-268, MCA, to require that the money raised by variable-priced licenses be used to fund HB 195 and block management programs.

C) Amend 87-1-268, MCA, to require that the money raised by variable-priced licenses be used to fund general fish and wildlife activity.

D) Do not amend 87-1-268, MCA.

5) If the money from variable-priced licenses is to be used to fund HB 195 programs, does the legislature want to clarify which part of the money received from the sale of variable-priced outfitter sponsored licenses is to be used? Is it the entire amount of the license fee? Is it just the amount of the increase? Is it the amount of money over what is needed to fund other earmarked programs at pre-HB 195 levels? The department has interpreted statute to mean that any additional money above what was raised prior to HB 195 goes to HB 195 programs. This methodology ensures that all other earmarked programs receive the same amounts as they did before passage of HB 195. HB 195 programs get the remainder. This means that: 1) $2,716,000 ($485 times 5,600 licenses) from the sale of variable-priced B-10 licenses; and 2) $500,000 ($250 times 2,000 licenses) from the sale of variable priced B-11 licenses are first distributed to other earmarked accounts. The remainder of the money goes to HB 195 programs.

Legislative Options

A) Amend 87-1-268, MCA, to require that the entire amount of revenue raised from the sale of variable-priced licenses be used for the HB 195 programs.

B) Amend 87-1-268, MCA, to require that the amount of revenue raised from the increased price of variable-priced license be used for the HB 195 programs.

C) Amend 87-1-268, MCA, to require that $2,716,000 from the sale of variable-priced B-10 licenses and $500,000 from the sale of variable-priced B-11 licenses first be allocated to other earmarked accounts and that the remaining revenue be used for the HB 195 programs.

D) Do not amend 87-1-268, MCA.

6) If statute clarification is not necessary, does the legislature want to use revenue from the outfitter-sponsored license fee increase to offset general license account expenditures in other programs, rather than use the entire amount for HB 195 programs?

Legislative Options

A) If yes, direct the agency to deposit all past and future revenue from the sale of variable-priced licenses to the general license account. Prioritize HB 195 and/or block management programs along with other programs funded from the general license account.

B) If yes, switch program funding in HB 2 from the general license account to the variable-priced licenses account.

5201 03
Department of Fish, Wildlife & Parks — **Fisheries Division**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	106.09	0.00	2.45	108.54	0.00	3.25	109.34	108.54
Personal Services	3,511,495	224,648	82,137	3,818,280	237,174	109,011	3,857,680	7,675,960
Operating Expenses	1,844,546	107,022	358,840	2,310,408	44,299	358,840	2,247,685	4,558,093
Equipment	201,355	17,645	0	219,000	17,645	0	219,000	438,000
Grants	135,482	970	0	136,452	970	0	136,452	272,904
Transfers	0	1,000,000	0	1,000,000	1,000,000	0	1,000,000	2,000,000
Total Costs	$5,692,878	$1,350,285	$440,977	$7,484,140	$1,300,088	$467,851	$7,460,817	$14,944,957
State/Other Special	2,852,045	218,137	403,141	3,473,323	192,554	426,991	3,471,590	6,944,913
Federal Special	2,840,833	1,132,148	37,836	4,010,817	1,107,534	40,860	3,989,227	8,000,044
Total Funds	$5,692,878	$1,350,285	$440,977	$7,484,140	$1,300,088	$467,851	$7,460,817	$14,944,957

Program Description

The Fisheries Division is responsible for preserving and perpetuating aquatic species and their ecosystems and for meeting public demand for fishing opportunities. The division formulates and implements policies and programs that emphasize management for wild fish populations and protection of habitat necessary to maintain these populations. The program 1) operates a hatchery program to stock lakes and reservoirs where natural reproduction is limited; 2) regulates angler harvests; 3) monitors fish populations; and 4) provides and maintains adequate public access.

The program work is mandated primarily in Title 87, Chapters 1, 3, and 5, MCA.

Funding

The Fisheries Division's primary funding source is the general license account. Federal funds are from Wallop-Breaux funds and Corps of Engineers grants. Legislative contract authority is funded with revenue from federal sources.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issue **- The present law personal services increase of $224,648 in fiscal 1998 and $237,174 in fiscal 1999 is misleading. In fiscal 1996, the department spent $22,772 for unbudgeted expenses which, if removed from the base, would increase the adjustments that amount. In addition, the executive is requesting vacancy savings of $115,482 in fiscal 1998 and $115,753 in fiscal 1999. If personal services were fully funded, the adjustments would increase by these amounts.**

5201 03
Department of Fish, Wildlife & Parks — Present Law Adjustments/Issues
Fisheries Division

		Present Law Description	Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	224,648	237,174
02		Inflation/Deflation	62,898	59,899
03		Fixed Costs	(415)	(415)
		Total Statewide Adjustments	$287,131	$296,658
Significant Present Law Adjustments				
04	79199	1 Personal Computer Each Year	0	0
05	91003	Fish Non-Discretionary Equip	0	0
06	91004	Whirling Disease Transfer	0	0
07	91031	Replacement Equipment	17,645	17,645
08	91032	Cyclical Adjustments	7,097	(53,903)
09	91033	Water Leasing And Purchasing	45,000	30,000
10	91034	Evaluations Of Fish Introductions	20,000	20,000
11	91035	Dnrc Fish Monitoring Work	23,716	23,923
12	91036	Legislative Contract Authority	1,000,000	1,000,000
13	91037	Progran Transfer	(12,000)	(12,000)
14	91038	Murray Springs Fish Hatchery	6,461	13,408
15	91039	Grants	970	970
16	91040	Contract Increase	0	0
		Total Significant PL Adjustments	$1,108,889	$1,040,043
Other Base Adjustments			($45,735)	($36,613)
		Grand Total Present Law Adjustments	$1,350,285	$1,300,088

7) Replacement Equipment - A replacement personal computer is requested each year of the biennium. One is for the fish health lab and one for the fish manager in Region 7 for a cost of $6,000 each year of the 1999 biennium. The equipment request includes replacement boats, motors, trailers, stream flow meters, generators, sampling gear, electroshocker units, fish distribution tanks and a one and one-half ton hatchery truck. The request is $216,000 each year of the biennium. The net increase is $17,645 each year of the 1999 biennium.

8) Cyclical Adjustments - Printing of fishing regulations occurs during the even-numbered years at an average cost of $50,000; during odd-numbered years addenda and additional regulations are printed at an average cost of approximately $25,000. The net change from the fiscal 1996 base is an increase of $7,0971 in fiscal 1998 and a decrease of $53,903 in fiscal 1999.

9) Water Leasing and Purchasing - A biennial appropriation is requested because water leasing is a complex process where the department leases private consumptive water rights to maintain instream flows. A successful water lease involves a willing lessor, adequate hydrology studies, a negotiated contract, and a completed water right change of use application. The change of use applications could lead to a contested case hearing. A water lease is paid for only after all the steps in the process have been completed. The complexity and uncertainty of this process make it difficult to determine when, during the biennium, the funds will be spent. The requested amounts are for $45,000 for fiscal 1998 and $30,000 for fiscal 1999.

LFD Issue **- The proposed adjustment consists of two parts. The legislature should consider the following two adjustments:**

1) <u>Water Purchasing and Leasing</u> - Because fiscal 1996 water leasing and purchasing expenditures of $42,220 are in the base, the adjustments for this activity are $2,780 in fiscal 1998 and a negative $12,220 in fiscal 1999 to equal the total amount requested of $45,000 in fiscal 1998 and $30,000 in fiscal 1999.

The 1995 legislature approved a $75,000 biennial appropriation for leasing water, including necessary studies and payment for the lease. Legislative authority to lease water rights is contained in 87-1-610, MCA. This section terminates at the end of fiscal 1999. The legislature may want to restrict the biennial appropriation to this purpose only and designate it as one-time-only.

2) <u>Contracted Services</u> - The executive requests an additional $42,220 each fiscal year over the amount spent in fiscal 1996. Contracts requested and amounts for each fiscal year include: 1) studies of special species - $5,000; 2) stream protection analyses - $65,000; 3) stream gauges operation - $63,000 in fiscal 1998 and $65,000 in fiscal 1999; 4) stream geomorphology and hydrology analyses - $5,000; 5) training - $5,000; 6) EIS reviews - $5,000; 7) management plan preparation - $15,000; 8) whirling disease laboratory testing - $50,000; 9) data entry and analysis - $13,600 in fiscal 1998 and $11,600 in fiscal 1999; 10) paddlefish research - $42,000; 11) study to obtain approval of fish drugs - $20,000; 12) implementation of drug exemption for fish disease control - $7,800; and 13) bull trout recovery program - $20,000.

10) <u>Evaluations of Fish Introductions</u> - Consultants are hired to prepare environmental reviews pursuant to the Montana Environmental Policy Act (MEPA) and 87-5-711(2), MCA. It is not possible to predict when or if there will be a need for an environmental assessment or if an environmental impact statement will ultimately be required. A biennial appropriation of $20,000 each year is requested to assure availability of funds when needed.

***<u>LFD Issue</u>* - The 1995 legislature approved a $40,000 biennial appropriation for this purpose. In fiscal 1996, nothing was spent. The legislature may want to restrict the appropriation to this purpose only.**

11) <u>DNRC Fish Monitoring Work</u> -The department has had an ongoing fisheries monitoring agreement with DNRC, formerly the Department of State Lands, since 1991. Initially this work was covered under the LCA program. More recently, expenses have been covered within the current level budget as there has been no mechanism to transfer funding. With the passage and approval of HB 201, these monitoring needs will continue into the foreseeable future. A base adjustment of $15,250 for each year of the 1999 biennium will allow FWP to continue the monitoring work and be reimbursed by DNRC for operating expenses only. The net change is a decrease of $43,141 in fiscal 1998 and a decrease of $28,863 in fiscal 1999.

***<u>LFD Issue</u>* - House Bill 201 was passed by the 1995 legislature. The legislation requires the Department of Natural Resources and Conservation to annually harvest 45-55 million board feet of timber from state lands. In fiscal 1996, FWP spent $15,250 to contract for the monitoring and was reimbursed this amount by the Department of Natural Resources and Conservation (DNRC). This adjustment would increase the total amount to $38,966 in fiscal 1998 and $39,173 in fiscal 1999. A number of funding options do exist. Currently, an FTE is budgeted in DNRC and paid directly out of the general license account to maintain and rehabilitate FWP dams. A similar arrangement could be made here -- budget the operating costs in FWP but fund them from DNRC's timber sales state special revenue account. Another method would be for DNRC to contract directly for the monitoring rather than going through FWP to contract for the work.**

12) <u>Legislative Contract Authority</u> - LCA is used to perform mitigation work across the state and to contract with federal and private entities to do fisheries related work. The request of $1 million per year is the same amount as was approved for the current biennium.

LFD Comment **- See the LFD issue in the preceding "Agency Issues" section for a discussion of the use of LCA.**

13) Program Transfer - The Fisheries Division has been providing dollars to supplement the Conservation Education Division budget for angler education. The transfer of dollars into the Conservation Education Division will formalize that commitment. This does not result in budget decrease, but rather is simply an intragency program transfer of $12,000 each year of the 1999 biennium.

LFD Comment **- There is a corresponding positive adjustment in the Conservation Education Division.**

14) Murray Springs Fish Hatchery - The Murray Spring Hatchery is funded 100 per cent by the Corps of Engineers. In order to adequately fund this station in fiscal 1998 and fiscal 1999, operating expenses increase by $6,461 in fiscal 1998 and $13,408 in fiscal 1999.

15) Grants - A slight increase in grants offered to Montana colleges and universities for fishery and aquatic research topics is requested in the amount of $970 each year of the 1999 biennium.

LFD Comment **- The executive is requesting $136,452 in grants each fiscal year for: 1) cooperative fisheries research unit grant to MSU - $86,452; 2) fishery and aquatic research at Montana colleges and universities - $25,000; and 3) genetic analysis of fish tissue by the University of Montana - $25,000.**

16) Contract Increase -

Other Base Adjustments - Numerous dollar decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

LFD Issue **- FWP operates its own motor pool. The executive requests a reduction of $45,670 in fiscal 1998 and $36,548 in fiscal 1999 in motor pool expenses. The executive included no inflationary increases for the department's motor pool, whereas inflationary increases of 27.4 percent in fiscal 1998 and 20.7 percent in fiscal 1999 for the Department of Transportation motor pool are provided in other agency budgets. Although no inflationary increases are included in the Executive Budget, the department had estimated a 3.9 percent increase for its motor pool.**

5201 03
Department of Fish, Wildlife & Parks — **Fisheries Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Lewistown Area Fisheries Mgmt	0.38		16,535	16,535	0.50		20,777	20,777
02	Evaluate Species Restor			50,000	50,000			50,000	50,000
03	Bull Trout Group			30,000	30,000			30,000	30,000
04	Clark Fork River Investigation	0.38		50,448	50,448	0.50		54,480	54,480
05	Fish Hatchery O&M	0.19		38,028	38,028	0.25		38,904	38,904
06	Factors Affect Ft Peck Pdle Fi			20,000	20,000			20,000	20,000
07	Fish Health O&M			32,800	32,800			32,800	32,800
08	Genetic Analysis Of Fish Stock			25,000	25,000			25,000	25,000
09	Whirling Disease Coordination	1.50		178,166	178,166	2.00		195,890	195,890
	Total For New Proposals	2.45		$440,977	$440,977	3.25		$467,851	$467,851

Executive New Proposals

1) Lewistown Area Fisheries Management - The 1993 legislature approved a 0.50 FTE and operating, with a similar commitment from the BLM, in order to have a full-time biologist in the Lewistown area. Due to federal cutbacks, the BLM could not honor the commitment. As a result, there is a part-time biologist in Lewistown. The management responsibilities are extensive with over 52 named waters. The request is for 0.38 FTE and $16,535 in fiscal 1998 and 0.50 FTE and $20,777 in fiscal 1999.

LFD Issues **- The 1993 legislature appropriated $26,666 to fund 0.5 FTE and operating expenses for a new Lewistown fisheries biologist. Since this was to be a cooperative biologist position with the BLM to initiate and implement a systematic inventory for area ponds and reservoirs, BLM was to fund the other 0.5 FTE of a full-time position. The position has been funded for four fiscal years (fiscal years 1994 through 1997). However, BLM has withdrawn their 0.5 FTE funding match.**

2) Evaluate Habitat/Native Species Restoration - The department is in the process of developing restoration plans for Arctic grayling, bull trout, westslope cu tthroat, and Yellowstone cutthroat rather than wait for federal listing as threatened species. Monitoring is necessary to determine if species are recovering. General license revenue is requested in the amount of $50,000 each year of the biennium to cover operating cost through grants to universities or contracts with the private sector.

LFD Issue **- See the Whirling Disease issue in the "Program Issues" section. A similar new proposal, "Factors Affecting Fort Peck Paddle Fish", is described below under item 6. The legislature may want to ask the department the status of provisions in 87-5-108, MCA. The statute requires the Governor to review other endangered species programs administered by the Governor's Office and encourage other state and federal agencies to assist in the state's endangered species efforts. Section 87-5-121, MCA, provides for a non-game account to be used for purposes of endangered species. The executive is requesting expenditures from the non-game wildlife account of $17,855 in fiscal 1998 and $18,379 in fiscal 1999 in the Parks Division. Section 87-5-122, MCA, requires the Fish, Wildlife and Parks Commission to annually review projects funded from this account. The legislature may want to ask the department the commission's priority projects for the use of the funding and use the information to help prioritize the limited funding from this account between those uses and this new proposal.**

Legislative Policy **- Does the legislature want to spend money on efforts to prevent listing fish species under the Endangered Species act?**

3) Bull Trout Watershed Group Administration - A major component of the bull trout restoration strategy is the development of watershed groups. These groups will be composed of representative agencies, landowners, recreational, and commercial users of the watershed and will assist in identifying and developing specific strategies. The department will provide facilitation, consultation, technical assistance, and administrative costs for the groups. General license revenue in the amount of $30,000 each year of the biennium is recommended for operating costs.

LFD Item **- In fiscal 1996, the department spent $31,482 on this activity, all of which is being requested in the executive present law. The legislature may want to ask the department what the goals are for this new program and request evaluation criteria on which future legislatures can base continued funding of the program.**

4) Clark Fork River Investigations - The Clark Fork River investigations were approved by the 1991 legislature as a one-time-only project. The project was reauthorized every biennium at the 1.00 FTE level and continued in the fisheries base

from FY92 through FY97. The original biological baseline work has been completed; however, additional fishery monitoring, identification, and implementation of aquatic habitat restoration will continue for years. This biennium, the department is requesting 0.38 FTE and $50,448 in fiscal 1998 and 0.50 FTE and $54,480 in fiscal 1999.

LFD Issue **- Originally approved as a one-time budget modification for the 1993 biennium, the 1993 legislature approved continuation of the activity only through the 1995 biennium. The 1995 legislature also continued the funding, but only through the 1997 biennium. Previous expenditures for this activity are: 1) fiscal 1992 - $44,512; 2) fiscal 1993 - $40,640; 3) fiscal 1994 - $43,158; 4) fiscal 1995 - $7,037; and 5) fiscal 1996 - $42,026. This new proposal is substantially different from previous ones. The FTE is less than previous new proposals and, in addition to continuing the efforts along the Clark Fork River, work will be expanded into the Blackfoot and Bitterroot river systems. The department also wants to permanently use the FTE in the Future Fisheries Act program. This program was passed by the 1995 legislature and 2.0 FTE were funded for its implementation. As this new proposal was originally conceived and funded by the 1991 and subsequent legislatures, the FTE and funding were to provide data collection and analysis on impacts of past mining activities on the aquatic resources on the upper Clark Fork River in connection with the state's resource damage assessment suit against ARCO. Staff from the Montana Department of Justice state that they essentially have all the data needed to prove their case. A trial date has been set for February 1997 and may last 4 to 6 months. Staff further state that the FWP has provided important information and they need FWP's help through the end of the trial. This new proposal is not designed to help the state's natural resource damage suit against ARCO as it had been funded for previously. If approved, the legislature should rename the new proposal "Future Fisheries Increase" to more accurately describe the purpose.**

5) Fish Hatchery Operation & Maintenance - A 0.19 FTE fish hatchery aide for the Miles City hatchery is requested in fiscal 1998, and increased to 0.25 FTE in fiscal 1999, to provide additional staff support during the fish distribution season. Also requested is operating to provide increased costs of fish food, costs associated with compliance to Federal safety standards, and state discharge fees.

LFD Issue **- This new proposal includes the increased costs of fish food over fiscal 1996 expenditures. However because "food" expenditures were inflated, inflationary increases of $6,333 in fiscal 1998 and $8,659 in fiscal 1999 are already included in the present law request. The new proposal should be reduced by these amounts.**

6) Factors Affect Ft. Peck Paddlefish - Funding is recommended for a four-year project to study factors affecting the abundance of paddlefish and to develop methods of stock assessment and yield forecasting in Fort Peck Reservoir. There is $20,000 budgeted each year of the 1999 biennium.

LFD Issue **- This new proposal is for the same purpose as the "Evaluate Habitat/Native Species Restoration" new proposal in that it is to monitor and gather information on certain fish species in an effort to prevent species from becoming listed under the endangered species act. In present law, the executive is requesting $42,000 each fiscal year to contract for paddlefish studies.**

7) Fish Health Operation & Maintenance - The federal FWS discontinued fish health diagnostic services to the states in June, 1995. At the time, private sector fish health diagnostic services were not available. In anticipation, FWP requested a capital appropriation from the 1995 legislature to construct a state fish health laboratory at Great Falls. During the last two years, fish health diagnostic services became available through a cooperative effort with MSU in Bozeman and the FWS moved its regional fish health laboratory from Fort Morgan, Colorado, to Bozeman. As a condition of that move, the FWS agreed to provide routine fish health diagnostics to Montana at cost. This permanent project request is for $32,800 each year of the

biennium in operating to contract for fish health diagnostic services, thereby eliminating the need to construct and operate an independent state fish health laboratory.

LFD Comment **- Please see the Whirling Disease issue in the "Program Issues" section.**

8) Genetic Analysis of Hatchery/Wild Stock - An increased interest in native fish stocks requires more genetic analysis of hatchery and many wild strains of fish than previously anticipated. Operating expenses increase by $25,000 each year of the 1999 biennium.

LFD Issue **- Funding already exists for this purpose. In present law, the executive is requesting $25,000 each fiscal year to contract with the University of Montana for genetic analysis. The executive is also requesting $20,000 each fiscal year to conduct environmental assessments required by MEPA when fish species are to be transplanted to waters where they have not previously existed. This money can also be viewed as assisting in the effort to maintain genetic purity in fish populations.**

9) Whirling Disease Coordination - In HB 5, the 1995 legislature authorized $500,000 for control, containment, and research of whirling disease HB 5 was a capital budget bill. These funds are more closely related to operational costs and it is requested that these costs be transferred to the general appropriations act. It is the policy of the OBPP that any request for new FTE be brought forward as a new proposal. The request is for 1.50 FTE in fiscal 1998 and 2.00 FTE in fiscal 1999, a biologist and fish/wildlife technician, along with $125,000 in operating, to work on research, control, and containment of whirling disease. One of the FTE will replace an interim FTE created by the Governor during fiscal 1996 to coordinate the FWP whirling disease research and management efforts. Funding for the $374,056 total request is from general license fees.

LFD Comment **- Please see the Whirling Disease issue in the "Program Issues" section.**

Executive Language Recommendation

The following Fisheries Division language is recommended for inclusion in HB 2:

> "Item X contains $45,000 in fiscal 1998 and $30,000 in fiscal 1999, which is a biennial appropriation for water leasing that may be combined and spent in either year of the biennium."

> "Item X contains $20,000 in fiscal 1998 and $20,000 in fiscal 1999, which is a biennial appropriation for environmental reviews that may be combined and spent in either year of the biennium."

LFD Issue **- This language references present law adjustments Water Leasing and Purchase and Evaluations of Fish Introductions. If the executive is requesting biennial appropriations, the entire $75,000 and $40,000, respectively, should be requested in fiscal 1998 and designated as biennial appropriations. If the legislature concurs, this would provide line items in HB 2 for these purposes that the legislature could also restrict (see the LFD analysis of the adjustments). The proposed language is unnecessary.**

Program Issues

Whirling Disease

The executive is requesting appropriations for whirling disease control in present law and in new proposals. The new proposals connected to whirling disease are Evaluate Species Restoration, Fish Health O&M, and

Whirling Disease Coordination. Table 7 shows the amounts the 1995 legislature appropriated for whirling disease control and how much the executive is requesting from the 1997 legislature. The legislature may want to consider the executive's total request together.

Table 7
Fish, Wildlife and Parks
Whirling Disease Appropriations*
1997 & 1999 Biennia

Source 1997 Biennium	Funding	FTE	Appropriation Fiscal 1996	FTE	Appropriation Fiscal 1997
HB2-New Proposal	SSR		$140,000		$124,000
HB2-Agency Elective	SSR	0.19	85,743	1.00	97,472
HB5-Bluewater Hatchery	SSR		125,000		125,000
HB5-Other	SSR		125,000		125,000
HB5-Diversion of Fish Lab Funds	SSR		100,000		100,000
HB5-Diversion of Oxygenate G. Springs**	SSR		84,267		84,267
HB5-Diversion of Oxygenate G. Springs**	Federal		252,801		252,801
LCA	Federal		1,288		
Total		0.19	$914,099	1.00	$908,540
1999 Biennium Request			Fiscal 1998		Fiscal 1999
HB2-New Proposals					
Evaluate Species Restoration	SSR		50,000		50,000
Fish Health O & M	SSR		32,800		32,800
Whirling Disease Coordination	SSR	1.50	178,166	2.00	195,890
Present Law Base					
Contracts	SSR		50,000		50,000
Grants to MSU	SSR		86,452		86,452
Other	SSR		56,076		56,076
Total		1.50	$453,494	2.00	$471,218

*Biennial appropriations are split between the two years.
**From the 1993 sesssion.

Statute allows the transfer of long-range building appropriations for the emergency repair or alteration of a building with authorization of the Governor (18-2-102, MCA). In the 1997 biennium the department, under this authority, diverted funding for whirling disease from two long-range building projects (previously approved by the legislature in HB 5 from the 1995 and 1993 sessions) to alter the water supply at the Giant Springs Trout Hatchery. The two projects were: 1) building the fish health laboratory; and 2) oxygenating the water supply at the Giant Springs Hatchery. Because of this transfer, the building of the fish health laboratory and the oxygenation of the Giant Springs Hatchery will not happen as expected by the legislature. The legislature may want to review this statute regarding authority to transfer appropriations.

The following discusses each of the new proposals requesting funding for whirling disease control.

1) Evaluate Habitat/Native Species Restoration

Department representatives state that because current staff are consumed with whirling disease issues, they do not have the time to monitor "species of special concern". In an indirect manner, this proposal is for whirling disease, as approval for whirling disease would free up existing staff and present law funding for monitoring purposes.

Legislative Option

1) Approve the executive request, but apply it specifically to whirling disease control, thus freeing existing staff for the stated purpose of this new proposal.

2) Approve the new proposal as requested.

3) Do not approve the new proposal.

2) Fish Health O&M

The department states that the discovery of whirling disease has increased the work load of the fish health laboratory beyond its capacity. This new proposal provides money to contract for fish health diagnostic services. The 1995 legislature appropriated $344,000 of general license account money to build a new fish health laboratory and residence at the Giant Springs Hatchery in Great Falls. At that time, the department told the legislature that beginning in fiscal 1996, the department would no longer provide fish health diagnostic services to the state and private hatcheries. The legislature may want to ascertain when the new laboratory will be finished and operational. Approval of this new proposal would be in addition to the $50,000 each fiscal year requested in the executive present law for whirling disease laboratory testing. (See the LFD issue under present law adjustment number 9.)

Legislative Options

1) Approve the new proposal. Designate the appropriations as one-time in anticipation that the department's new laboratory will be operational beginning in the 2001 biennium.

2) Do not approve the new proposal.

3) Whirling Disease Coordination

The Whirling Disease Coordination new proposal plans to transfer the $500,000 appropriation in HB 5 (a capital projects appropriation bill) to HB 2 (an operations appropriation bill). However, to achieve the transfer of the appropriation, Chapter 546 (HB 5 from the 1995 session) must be amended. The department to date is not proposing such legislation. Approval of the new proposal without reducing appropriations in Chapter 546 will result in an increase in total department appropriations. Appropriations in HB 5 are one-time appropriations. Transferring the appropriations to HB 2 to fund personal services and operations will result in ongoing costs.

Legislative Options

1) Approve the executive new proposal. Coordinate with the Long-range Building Subcommittee to amend (in the current HB 5) Section 2, Chapter 546 of the 1995 legislature to reduce the Bluewater Hatchery appropriation by $250,000, and to amend the language and appropriation in Section 14, Chapter 546.

2) Approve an amount less than the executive request.

3) Do not approve the new proposal.

5201 04

Department of Fish, Wildlife & Parks — **Law Enforcement Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	95.98	3.00	1.00	99.98	3.00	1.00	99.98	99.98
Personal Services	3,690,485	129,078	25,369	3,844,932	128,535	25,369	3,844,389	7,689,321
Operating Expenses	1,420,874	265,206	0	1,686,080	239,737	0	1,660,611	3,346,691
Equipment	146,584	(13,934)	0	132,650	(23,684)	0	122,900	255,550
Grants	17,698	44,302	0	62,000	44,302	0	62,000	124,000
Transfers	0	312,000	0	312,000	312,000	0	312,000	624,000
Total Costs	$5,275,641	$736,652	$25,369	$6,037,662	$700,890	$25,369	$6,001,900	$12,039,562
General Fund	111,070	13,889	0	124,959	10,502	0	121,572	246,531
State/Other Special	5,036,314	402,516	25,369	5,464,199	372,970	25,369	5,434,653	10,898,852
Federal Special	128,257	320,247	0	448,504	317,418	0	445,675	894,179
Total Funds	$5,275,641	$736,652	$25,369	$6,037,662	$700,890	$25,369	$6,001,900	$12,039,562

Program Description

The Law Enforcement Division is responsible for ensuring compliance with the department laws and regulations for the protection and preservation of big game animals, fur-bearing animals, fish, game birds, and other wildlife species. It also enforces laws and regulations relative to lands or waters under the jurisdiction and authority of the department, as well as those laws and regulations pertaining to boating, snowmobile and all-terrain vehicle safety. Other duties include administration of special purpose licenses, overseeing the department's licensing agents, and investigating wildlife damage complaints.

The program work is mandated in Title 23, MCA.

Funding

The Law Enforcement Division is funded primarily with state special revenue, including the general license account, variable-priced license fees, motorboat certificate fees, motorboat fuel taxes, state parks funds, income from the coal tax trust, and snowmobile registration funds. General fund finances activities that had been funded with revenue from fines de-earmarked by SB 83. Federal funds consists of grants from the Coast Guard. Legislative contract authority is funded with private and federal contracts and grants.

5201 04 **Department of Fish, Wildlife & Parks** Performance Based Budget				**Law Enforcement Division**				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	98.98	1.00	99.98	98.98	1.00	99.98	99.98
Performance Based	5,275,641	736,652	25,369	6,037,662	700,890	25,369	6,001,900	12,039,562
Total Costs	$5,275,641	$736,652	$25,369	$6,037,662	$700,890	$25,369	$6,001,900	$12,039,562
General Fund	111,070	13,889	0	124,959	10,502	0	121,572	246,531
State/Other Special	5,036,314	402,516	25,369	5,464,199	372,970	25,369	5,434,653	10,898,852
Federal Special	128,257	320,247	0	448,504	317,418	0	445,675	894,179
Total Funds	$5,275,641	$736,652	$25,369	$6,037,662	$700,890	$25,369	$6,001,900	$12,039,562

Performance-Based Budget

The Law Enforcement Division is one of 16 state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the law enforcement division is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

Goal 1: To provide protection for fish, wildlife, and habitat resources through regulation and education ensuring equitable outdoor recreational opportunities.

Objective 1A: *Fish and Wildlife Compliance* - To maintain present level of compliance of fish and wildlife regulations.

Performance Measures:

1A-1 Contact a minimum of 20 percent of license holders each year for compliance checks.

PROJECTED

	1992	1993	1994	1995	1996	*1997*	*1998*	*1999*
# of sportsperson	444,800	461,063	481,898	NA	NA	*540,000*	*560,000*	*580,000*
# of contacts	96,222	97,514	94,472	93,143	NA	*108,000*	*112,000*	*116,000*
# of violations	5,718	5,560	5,951	5,611	NA	*5,700*	*5,800*	*5,900*
contact rate = cont/sportsperson	21.6%	21.1%	19.6%	NA	NA	*20.0%*	*20.0%*	*20.0%*

1A-2 Maintain number of landowner contacts.

PROJECTED

	1992	1993	1994	1995	1996	*1997*	*1998*	*1999*
landowner contacts	8,786	7,857	8,174	9,804	NA	*9,800*	*9,800*	*9,800*

1A-3 Maintain 95 percent conviction rate of fish and wildlife case prosecutions.

PROJECTED

	1992	1993	1994	1995	1996	*1997*	*1998*	*1999*
# cases prosecuted	3,310	3,282	3,161	NA	NA	*3,200*	*3,300*	*3,400*
# convictions	3,252	3,221	3,082	NA	NA	*3,040*	*3,135*	*3,230*
conviction rate=convictions/cases	98.2%	98.1%	97.5%	NA	NA	*95.0%*	*95.0%*	*95.0%*

1A-4 Maintain specialized law enforcement programs.

PROJECTED

	1992	1993	1994	1995	1996	1997	1998	1999
# specialized programs	10	10	10	11	11	11	11	11

PROGRAMS: *Criminal Investigations, License Fraud Investigations, Crimestoppers Program, Simulated Wildlife Program, Saturation Patrols, Major Checking Stations, Commercial Licensing, Outfitter Enforcement, State Lands Recreation Enforcement, Ex-Officio Warden Program and Hunter Enhancement Program Enforcement.*

Goal 2: To protect the state's natural, historic, cultural, and recreational resources through regulation and education, providing a safe and enjoyable experience for users.

Objective 2A: *State Parks Compliance* - To maintain present level of compliance of state park and resource regulations.

Performance Measures:

2A-1 Maintain number of warden patrols and assistance to Park Rangers with on-site response.

PROJECTED

	1992	1993	1994	1995*	1996	*1997*	*1998*	*1999*
# park user contacts	3,746	3,640	3,331	2,296	NA	*2,500*	*2,500*	*2,500*
# investigations	NA	149	98	33	NA	*40*	*40*	*40*

**explanatory note: performance decline in 1995 due to de-emphasis in state parks funding for enforcement*

2A-2 Maintain 95 percent conviction rate of state parks case prosecutions.

PROJECTED

	1992	1993	1994	1995	1996	*1997*	*1998*	*1999*
# cases prosecuted	100	125	89	NA	NA	*100*	*100*	*100*
# convictions	94	119	85	NA	NA	*95*	*95*	*95*
conviction rate=convictions/cases	94.0%	95.2%	95.5%	NA	NA	*95.0%*	*95.0%*	*95.0%*

Goal 3: To protect public safety and enjoyment of boat and water recreation, snowmobile and off-highway-vehicle use through education and regulation.

Objective 3A: *Recreational Conveyance Compliance* - To maintain present level of compliance of boat, snowmobile, and off-highway vehicle regulations.

Performance Measures:

3A-1 Contact a minimum of 40 percent of recreational conveyance users each year for compliance checks.

	1992	1993	1994	1995	1996	*1997*	*1998*	*1999*
						PROJECTED		
# resident licensed users	67,413	70,556	74,339	79,752	NA	*86,000*	*89,000*	*92,000*
# of contacts*	28,698	32,601	36,609	35,940	NA	*34,400*	*35,600*	*36,800*
# of violations	546	582	683	NA	NA	*920*	*1,000*	*1,080*
contact rate = contacts/users	53.9%	46.2%	49.2%	45.1%	NA	*40.0%*	*40.0%*	*40.0%*

**explanatory note includes non-resident users*

3A-2 Participate in at least 30 water safety programs per year

	1992	1993	1994	1995	1996	*1997*	*1998*	*1999*
						PROJECTED		
# warden programs	29	28	50	34*	NA	*30*	*30*	*30*

**explanatory note reflects loss of 2.0 FTE water safety personnel*

3A-3 Maintain 95 percent conviction rate of recreational conveyance case prosecutions.

	1992	1993	1994	1995	1996	*1997*	*1998*	*1999*
						PROJECTED		
# cases prosecuted	546	582	683	NA	NA	*700*	*740*	*780*
# convictions	525	560	655	NA	NA	*665*	*703*	*741*
conviction rate=convictions/cases	96.2%	96.2%	95.9%	NA	NA	*95.0%*	*95.0%*	*95.0%*

NOTE: Methods to determine baseline and acceptable compliance levels under objectives 1a, 2a and 3a will be developed within two years.

<u>*LFD Issue*</u> - The Law Enforcement Division participated in the performance based budgeting (PBB) pilot project for the 1999 biennium. The legislature encouraged expansion of the PBB pilot project in House Bill 2 language. The idea of the PBB pilot project is to preview a method of budgeting that holds agencies accountable for the expenditure of resources based on service accomplishments. The methodology provides additional information to decisionmakers that ties appropriations to goals, objectives, and performance measures. Performance measures can be used both to provide policy guidance and to evaluate performance outcomes. Results are then compared to established targets.

The division developed its budget according to the statutory budget process, but also submitted a budget tied to broad goals and included measures to evaluate performance. The following table shows the goal, performance measures, and budget for each.

Table 8
Law Enforcement Division Performance Based Budgeting
1999 Biennium

		Fiscal 1998	Fiscal 1999
Goal 1	Fish & Wildlife Compliance - Provide protection for fish, wildlife and habitat resources through regulation and education ensuring equitable outdoor recreational opportunities by maintaining present level of compliance of fish and wildlife	$5,435,897	$5,414,888
	Performance Measures:		
	1. Contact at least 20% of license holders for compliance: 112,000 in fiscal 1998 and 116,000 in fiscal 1999		
	2. Contact 9,800 landowners in each fiscal year		
	3. 95% conviction rate in prosecutions 3,135 convictions in fiscal 1998 and 3,230 in fiscal 1999		
	4. Have 11 specialized programs		
	New Proposals	$25,369	$25,369
Goal 2	State Parks Compliance - Protect the state's natural, historic, cultural, and recreational resources through regulation and education, providing a safe and enjoyable experience for users.	$52,986	$50,265
	Performance Measures:		
	1. Contact 2,500 park users each fiscal year		
	2. Conduct 40 investigations each fiscal year		
	3. 95% conviction rate in prosecutions 95 convictions in each fiscal year		
Goal 3	Recreational Conveyance Compliance - Protect public safety and enjoyment of boat and water recreation, snowmobile and off-highway-vehicle use through education and regulation.	$523,410	$511,378
	Performance Measures:		
	1. Contact at least 40% of licensed users 35,600 users in fiscal 1998 and 36,800 in fiscal 1999		
	2. Participate in at least 30 water safety programs each year		
	3. 95% conviction rate in prosecutions 703 convictions in fiscal 1998 and 741 in fiscal 1999		
All	Total Cost	$6,037,662	$6,001,900
Funding			
	General Fund	$124,959	$121,572
	General License Account (Hunting & fishing license fees)	4,879,709	4,863,457
	Market Based Combo Sales (Variable priced NR licenses)	233,091	233,373
	Private Funds (Legislative Contract Authority)	23,866	24,288
	Parks Earned Revenue	44,779	41,176
	Motorboat Fuel Taxes	22,646	21,483
	Motorboat Certification ID	118,406	117,037
	Snowmobile Fuel Taxes	30,956	29,603
	Snowmobile Registration	55,128	52,834
	Off-highway Vehicle Fines	55,618	51,402
	Federal	448,504	445,675
	Total	$6,037,662	$6,001,900

The following questions are raised to help the legislature determine if the PBB as submitted meets legislative budgeting needs.

1) How does the PBB budget respond to LAD performance audit recommendations? For example, many of the performance measures are to "maintain" current levels. However, the audit recommends the department change certain activities and policies (the audit uses words such as "strengthen", "establish", and "restructure"). The audit also recommended that the department implement a resource-based enforcement workload planning and priority-setting process. The performance measures submitted with the budget appear to be just extensions of existing work plans and do not appear to specifically demonstrate how efforts by wardens will accomplish either the mission statement or the goals. The measures are based on historical data and do not appear to have been developed in conjunction with other divisions.

2) Is the goal of maintaining 11 specialized programs a meaningful measure? Should each of these 11 program have its own performance measures so the legislature can evaluate the cost of each program with its effectiveness? For example, the executive is requesting a new proposal to increase funding for the TIP-MONT program (one of the 11 programs). However, there are no goals and performance measures for this program to guide the legislature in its decision.

3) The PBB as submitted does not prioritize the goals or activities listed as performance measures. For example, if funding was inadequate to meet the goal of contacting 112,000 sportsmen in fiscal 1998, would the department use funding from the specialized programs to meet that goal? As stated, one of the LAD recommendations was for the department to implement a resource-based enforcement workload planning and priority-setting process.

4) No dollar amounts are associated with the performance measures. How will the legislature determine the budget changes needed to change the emphasis of the program? For example, how much less should be budgeted if the legislature wanted 2,500 convictions in fiscal 1998 instead of 3,135?

5) How will the 1999 legislature determine the budget changes needed if performance measures are not met or exceed expectations? Should budgets be increased as an incentive if measures are not met or decreased as punishment?

6) How does the budget coordinate with other divisions and their goals? For example, because mule deer populations are declining, the Wildlife Division sets harvest quotas on mule deer in an effort to maintain the population at desired levels. What is the Wildlife Division's expectation that the Law Enforcement Division will ensure quotas are not exceeded?

7) The four goals provided by the division are broad. Are these adequate for the legislature to understand all that the division does? Are the performance measures adequate for the legislature to determine how the division performs its duties? For example, if (under Goal 3) 35,600 contacts were made and 30 water safety programs were participated in, will the legislature be satisfied that the "present level of compliance of boat, snowmobile and off-highway vehicle regulations" has been maintained?

Executive Present Law

5201 04 Department of Fish, Wildlife & Parks Law Enforcement Division		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	129,078	128,535
02	Inflation/Deflation	118,887	90,062
03	Fixed Costs	(13,340)	(13,340)
	Total Statewide Adjustments	$234,625	$205,257
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$502,027	$495,633
	Grand Total Present Law Adjustments	$736,652	$700,890

LFD Issue - The present law personal services increase of $129,078 in fiscal 1998 and $128,535 in fiscal 1999 is misleading. In fiscal 1996, the department spent $323,484 for unbudgeted expenses which, if removed from the base, would increase the adjustments bythat amount. In addition, the executive is requesting vacancy savings of $118,906 in fiscal 1998 and $118,893 in fiscal 1999. If personal services were fully funded, the adjustments would increase by these amounts. In addition, HB 195 authorized 3.0 more FTE for the 1999 biennium than in fiscal 1996, for an increase of $110,636 in fiscal 1998 and $110,826 in fiscal 1999. The additional costs for these FTE are reflected in the present law personal services adjustment.

LFD Comment - The executive is requesting an additional $13,889 general fund in fiscal 1998 and $10,502 in fiscal 1999 to pay for present law increases, primarily inflation for the use of motor pool vehicles. Although the present law adjustment table does not provide details on the adjustment, the following narrative does.

1) Restore to 1997 Biennium Authorized Levels - The Enforcement Division was selected to participate in the pilot program for performance-based budgeting during the 1999 biennium. The requested adjustments restore operational levels to the amounts authorized by the legislature for the 1997 biennium to accomplish present law mandates of the division. In shifting to this new management/budgeting process, the division recognized the need to establish base-line data which is essential for resource allocation and performance measurement. It is anticipated that, once base-line performance data is established, the division will be in position to allocate and adjust resources relative to the progress made in attaining desired goals and objectives.

The 1995 legislature approved an additional 5.00 FTE for field enforcement efforts. Two of the new positions were filled in fiscal 1996 and the three remaining positions were filled in fiscal 1997. Personal services costs related to the new FTE were funded by the 1995 legislature; however, operations for the positions were not funded. During fiscal 1996 and 1997, funds were transferred internally to supplement the operational deficit and fulfill legislative intent, which was to place five new officers in the field. This request includes an adjustment of $70,000 each year of the 1999 biennium to ensure permanent operational funds are available for the five new positions.

LFD Issue - The legislature phased-in enforcement of HB 195 activities by appropriating 2.0 FTE in fiscal 1996 and an additional 3.0 FTE in fiscal 1997 (for a total of 5.0 FTE). Please see the LFD issue House Bill 195 in the "Program Issues" section of the Field Services Division for further information on this program. In fiscal 1996, $57,639 of variable-priced license money was spent by this division. The executive is requesting a total of $233,091 in fiscal 1998 and $233,373 in fiscal 1999 for HB 195 activity in this division.

2) Game Farm EA/EIS Biennial Appropriation - Included in the adjustment to restore to 1997 biennium authorized levels is $104,000 each year of the 1999 biennium for preparation of environmental assessments (EAs) or environmental impact statements (EISs) for proposed new or expansion of existing game farms as required by MEPA. A biennial appropriation is requested in order to better utilize resources to meet time frames required by law.

***LFD Issue* - The 1995 legislature approved a $208,000 biennial appropriation to fund four environmental assessments and two environmental impact statements associated with game farm applications, including costs not recoverable from the applicant. In fiscal 1996, only $966 was spent. In considering this increase, the legislature may want to ask the department for more realistic estimates on the costs and number of expected game farm EIS. Since the need for these funds is uncertain, if the legislature approves this increase it may want to consider restricting the appropriation to this purpose only.**

In fiscal 1996, this division used 1.0 FTE and spent $47,450 administering its game farm oversight duties, funded entirely from the general license account (this amount does not include the $49,937 in legal expenses incurred by the Department Management Division - see the "Contract Support" present law adjustment in that division). The 1993 legislature began funding game farm activities after the passage of HB 338. The department has jurisdiction over game farm licensing, reports, fencing, classification, removal, inspection, and enforcement (see 87-4-409, MCA). The initial license fee, based on the number of animals, ranges from $200 to $400 and the renewal fee ranges from $50 to $200 (87-4-411, MCA). The money is to be used to pay the department's costs that are associated with game farms. However, because only $3,850 of license fees were collected in fiscal 1996, the general license account subsidizes this activity. The legislature may want to review the statutory fee structure in light of the department's expenses in carrying out its statutory duties and eliminate or reduce the subsidy by the general license account.

3) Grants to Counties - The 1995 legislature reduced the Water Safety Program by 2.00 FTE and amended state law to include county governments as eligible for federal matching funds for water safety enforcement and education. The intent was to reduce the water safety workload of game wardens and contract with counties to do the work. Only two counties chose to participate in fiscal 1996 and three in fiscal 1997. Because of the lack of interest by the counties to assume water safety responsibilities, the Executive Budget proposes to expand the scope of this program to include contracting with other governmental and private groups or individuals interested in water safety enforcement and education efforts. The net increase is $44,302 each year of the 1999 biennium.

***LFD Comment* - The 1995 legislature appropriated $62,000 each year of the 1997 biennium to contract for water safety law enforcement services. In fiscal 1996, $17,698 was spent.**

4) Legislative Contract Authority - LCA is used for bull trout enforcement and education; donations and restitution earmarked for simulated wildlife maintenance; special funds for criminal investigations; and donations for enforcement efforts. The increase of $312,000 each year of the 1999 biennium over the current biennium is attributable to contract bull trout enforcement efforts in western Montana which are funded by the Bonneville Power Administration.

***LFD Issue* - Please see the LFD issue in the "Agency Issues" section concerning LCA. The request includes $25,000 each fiscal year of private funds. Private funds are not subject to legislative appropriations and should be removed from the request.**

5) Replacement Equipment - The equipment request total is $132,650 in fiscal 1998 and $122,900 in fiscal 1999 which includes all-terrain vehicles, horse trailers, horses, boats and jet boats, snowmobiles, portable radios, surveillance cameras, laptop computers, and office equipment. The net difference from the 1996 base is a reduction of $1,501 in fiscal 1998 and $11,251 in fiscal 1999

5201 04
Department of Fish, Wildlife & Parks — Law Enforcement Division
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 License Fraud/Tip-Mont - Pbb	1.00		25,369	25,369	1.00		25,369	25,369
Total For New Proposals	1.00		$25,369	$25,369	1.00		$25,369	$25,369

Executive New Proposals

1) License Fraud/TIP-MONT - The $25,369 each year of the 1999 biennium proposed is for 1.00 FTE to accept and process TIP-MONT calls, prepare statistics, and analyze types of crimes and location of crimes reported. A recent legislative audit discovered a large license fraud case backlog which will be addressed as a primary responsibility of this position FTE. Operational funding is included in the base budget.

LFD Issue **- The executive is requesting a new proposal to increase funding for the TIP-MONT program (one of the 11 specialized programs included in the performance measures of the division's PBB). Funding is from the general license account and park fees. Although the department states that efforts to lessen license fraud is a major tool of fish and wildlife management, no goals or performance measures are included for this new proposal. The money requested for this proposal would be a 91 percent increase over the $14,395 general license account money spent on this program in fiscal 1996. No FTE are currently budgeted specifically for this program. A performance audit of this program concluded that more emphasis should be put on establishing polices and procedures, compiling information on program outcomes and impacts, and evaluating who should be in charge of telephone operations.**

Although agency staff state that the program is an extremely valuable source of intelligence, complete statistics are unavailable (only statistics on cases where a reward was requested are kept). The legislature may want to ask the department: 1) for measures on the effectiveness of the current program and what the legislature can expect if this additional funding is approved; 2) how this funding addresses the audit findings; 3) the priority of enforcement cases initiated from this program compared to other warden duties; and 4) about the ability of wardens to respond if more cases are generated from this new proposal.

Executive Language Recommendation

The following HB 2 language is recommended for the Enforcement Division:

> "Item X contains $104,000 in fiscal 1998 and $104,000 in fiscal 1999 which is a biennial appropriation for game farm reviews that may be combined and spent in either year of the biennium."

LFD Issue **- To be a biennial appropriation, the entire $208,000 should be requested in fiscal 1998 and designated as a biennial appropriation. If the legislature concurs, this would provide a line item in HB 2 for this purpose that the legislature could also restrict since it is uncertain that the division will receive the revenue.**

5201 05

Department of Fish, Wildlife & Parks — **Wildlife Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	96.93	0.00	0.76	97.69	0.00	1.00	97.93	97.69
Personal Services	3,393,739	195,866	22,422	3,612,027	203,459	29,508	3,626,706	7,238,733
Operating Expenses	2,553,809	370,617	86,580	3,011,006	457,289	86,580	3,097,678	6,108,684
Equipment	66,541	15,109	0	81,650	(5,341)	0	61,200	142,850
Capital Projects	220,539	(220,539)	0	0	(220,539)	0	0	0
Grants	4,017	23,343	0	27,360	23,343	0	27,360	54,720
Transfers	0	256,000	0	256,000	256,000	0	256,000	512,000
Total Costs	$6,238,645	$640,396	$109,002	$6,988,043	$714,211	$116,088	$7,068,944	$14,056,987
State/Other Special	3,257,056	180,016	52,752	3,489,824	247,147	59,838	3,564,041	7,053,865
Federal Special	2,981,589	460,380	56,250	3,498,219	467,064	56,250	3,504,903	7,003,122
Total Funds	$6,238,645	$640,396	$109,002	$6,988,043	$714,211	$116,088	$7,068,944	$14,056,987

Program Description

The Wildlife Division is responsible for the department statewide wildlife management program, which enhances the use of Montana renewable wildlife resources for public benefit. It protects, regulates, and perpetuates wildlife populations with habitat management and regulated harvest. Through promotion of land management practices, wildlife habitat areas are maintained and enhanced. In addition, the program provides wildlife recreational opportunities to the public, including nongame wildlife, and provides public information regarding conservation of wildlife populations and wildlife habitats. The program manages animals legislatively categorized as big game, small game, furbearers, and threatened and endangered species.

The program work is mandated in Title 87, Chapters 1 and 2, MCA.

Funding

The Wildlife Division state special revenue funding consists primarily of hunting and fishing license revenue. Earmarked hunting license fees fund all of the upland game bird habitat enhancement program and the wildlife habitat program operations. Other specialized programs are financed from revenue earned from earmarked hunting license fees such as fees for waterfowl stamps, and mountain sheep and moose auctions. Federal funding consists of Pittman-Robertson funds. Legislative contract authority (LCA) is funded with federal revenue.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issues **- The present law personal services increases of $195,866 in fiscal 1998 and $203,459 in fiscal 1999 are misleading. In fiscal 1996, the department spent $191,746 for unbudgeted expenses which, if removed from the base, would increase the adjustments by that same amount. In addition, the executive is requesting vacancy savings of $110,908 in fiscal 1998 and $111,142 in fiscal 1999. If personal services were fully funded, the adjustments would increase by these amounts.**

5201 05 Department of Fish, Wildlife & Parks Wildlife Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	195,866	203,459
02		Inflation/Deflation	67,202	53,874
03		Fixed Costs	(607)	(607)
		Total Statewide Adjustments	$262,461	$256,726
Significant Present Law Adjustments				
04	79198	Special Dp For Harvest Survey	20,000	20,000
05	79199	Upgrade Personal Computers	0	0
06	91004	Upland Game Bird Habitat Enhancement	94,235	194,235
07	91005	Wild Non-Discretionary Equip	0	0
08	91006	Black Bear Research	0	0
09	91007	Habitat Enhancement	(10,539)	(10,539)
10	91008	Predator Research	(243)	(243)
11	91009	Replacement Equipment	(4,891)	(25,341)
12	91010	Legislative Contract Authority	256,000	256,000
13	91011	Grants	23,343	23,343
		Total Significant PL Adjustments	$377,905	$457,455
Other Base Adjustments			$30	$30
		Grand Total Present Law Adjustments	$640,396	$714,211

In addition to the amounts requested in numbers 6, 9 and 10 below, the following are also being requested for contracted services each fiscal year: 1) data entry for harvest surveys - $50,000; 2) computer graphics for annual reports - $3,500; 3) university studies of wildlife populations - $75,000; 4) disease testing and tooth analysis for age determination - $8,000; 5) aircraft to capture wildlife - $20,000; 6) statistical analysis of wildlife populations; and 7) regulation development - $3,000.

The executive is also requesting $40,000 each year in contracted services for computer database development for special projects. The Administration and Finance Division is requesting a new proposal for $2,765,000 in the 1999 biennium to develop an automated licensing system and to replace other current computer systems. If the new proposal is approved, some this request may not be necessary.

4) Special Data Processing for Harvest Survey - Specialized data processing for the current harvest survey program upgraded to a PC format is requested. The request is $20,000 each year of the 1999 biennium.

LFD Issue **- The Administration and Finance Division is requesting a new proposal for $2,765,000 for the 1999 biennium to develop an automated licensing system. One of the stated benefits to the department would be more timely and accurate biological surveys. If the new proposal is approved, some of this increase may not be necessary. If this request is approved, the legislature may want to consider reducing the $50,000 requested each fiscal year for contracted services to assist with harvest surveys.**

6) Upland Game Bird Habitat Enhancement - The upland game bird habitat enhancement and pheasant planting program is funded by an earmarked revenue source. Funding projections will allow for an increase in the program both for cost

sharing habitat enhancement and pheasant planting. The agency again requests this be authorized as a biennial appropriation. The net request is $94,235 in fiscal 1998 and $194,235 in fiscal 1999.

***LFD Issue* - The total executive request is for a $1,000,000 biennial appropriation for the program. In fiscal 1996, $355,765 was spent. The 1995 legislature appropriated $1,140,000 as a biennial appropriation for this program. The legislature may want to restrict the appropriation to this purpose only.**

9) Habitat Enhancement - The habitat enhancement project is keyed to privately-owned lands enrolled in the federal Conservation Reserve Program (CRP). Projects are contingent upon coordination and collaboration with federal agencies involved in CRP administration, as provided by the farm bill. The 1996 Farm Bill was signed into law by President Clinton on April 4, 1996. Federal rules that govern implementation of provisions of the 1996 Farm Bill have not been released. Until federal rules are released, federal agencies involved in administration of CRP are not in a position to effectively partnership with regard to implementation of the habitat enhancement project. Landowners who would be potential partners under this project are in a limbo situation. Upon release of finalized federal rules governing implementation of CRP, this project will be implemented on a collaborate, cost-share basis. The funding is all federal Pittman-Robertson in the amount of $210,000 each year of the biennium. During fiscal 1996, the funding source was utilized for a water management system at Freezeout WMA and charged under capital outlay. This was a one time cost and has not been requested as a part of the zero based capital outlay request. The net difference is a decrease of $10,539 each year of the 1999 biennium.

***LFD Issue* - The 1995 legislature approved an executive new proposal for $210,000 of federal funds and $40,000 from the mountain sheep account for each fiscal year of the 1997 biennium. The purpose of the state funding was to obtain bighorn sheep winter range from the U.S. Forest Service and private landowners along the Rocky Mountain Front and in the Highland Mountains. The federal funds were to be used to lease upland game bird and waterfowl habitat if acreage under the federal CRP was phased out of the program over a five-year period. In fiscal 1996, a total of $220,539 was spent, but most of it was used by the department for purposes other than that for which the legislature appropriated the money. The federal money was not spent in fiscal 1996 for the intended purpose. The legislature may want to ask the department how the authority to purchase bighorn sheep winter range was used. If this adjustment is approved, the legislature may want to restrict the appropriations to the stated purpose only. This will also make it easier to identify and remove expenses from the budget base when the five-year period is over. If the present law increase is not approved, the department should state whether the federal funds could be used to reduce present law or new proposals that are funded from the general license account.**

10) Predator Research - The Black Bear Research Project approved by the 1995 legislature for implementation in fiscal 1996 was delayed until fiscal 1997. The delay resulted because the redirected FTE from the research program was not available. Data analysis and a final report for the Elkhorn Elk Study was not completed in time to initiate the black bear field work in fiscal 1996. The funding is $29,975 general license fees and $89,925 federal Pittman-Robertson each year of the biennium. It will be utilized to initiate mountain lion/deer management interactions in fiscal 1997. During fiscal 1996, the funding source was utilized for a snow goose project and the HGM wetlands assessment and charged under the zero-based contracted services. This was a one-time cost and has not been repeated. The request is $119,900 each year of the 1999 biennium for a net decrease of $243 each year.

***LFD Issue* - The 1995 legislature approved a new proposal for $119,900 for operational expenses for this project for each fiscal year of the 1997 biennium. No FTE were authorized. The department told the legislature that a present law FTE would used for the next six years to conduct black bear research identified in a department-funded EIS on black bears. In fiscal 1996, the department spent $120,143 of the operational authority for purposes other than that for which the legislature appropriated the money. It appears that the**

department plans to again use the present law appropriations in the 1999 biennium for a purpose other than what was originally intended - for a study on mountain lions and deer rather than on a black bear study. If this adjustment is approved, the legislature may want to restrict the appropriations and make clear that this adjustment switches the funding for black bear research to "predator research".

Since an existing program is being replaced by this new program, this proposal should be considered a new proposal rather than a present law adjustment.

11) Replacement Equipment - Replacement equipment includes four-by-four off-road vehicles, motorcycles, equipment trailer, snowmobiles, camp trailers, two horses, and a surplus Department of Transportation dump truck. The cost of the replacement equipment is $51,650 in fiscal 1998 and $31,200 in fiscal 1999. Replacement personal computers are requested to upgrade those used by biologists. The request is for $10,000 each year of the biennium. The net decrease in equipment is $4,891 in fiscal 1998 and $25,341 in fiscal 1999.

12) Legislative Contract Authority - LCA is used to perform special surveys for federal agencies under contract. The requested amount is $256,000 each year of the 1999 biennium

LFD Issue **- Please see the LFD issue in the "Agency Issues" section for a discussion of LCA.**

13) Grants - The program utilizes a student stipend for graduate studies at the university system. The expenditure level in fiscal 1996 only allows for a single stipend which is inadequate for the needs. The current curriculum requirements have extended the time frame for attaining a master's degree and limits the timing in which projects can be initiated. Two stipends would allow projects to be staggered to meet the field seasons. The reduced expenditures in fiscal 1996 was the result of project completion by the student. An increase of $23,343 each year of the biennium is requested.

LFD Comment **- In fiscal 1996, the department only spent $4,017 of the $27,360 appropriated.**

Other Base Adjustments - Numerous decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

5201 05
Department of Fish, Wildlife & Parks — **Wildlife Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Bear Management Specialist	0.76		34,002	34,002	1.00		41,088	41,088
02 Blackfooted Ferret Reintro			75,000	75,000			75,000	75,000
Total For New Proposals	0.76		$109,002	$109,002	1.00		$116,088	$116,088

Executive New Proposals

1) Bear Management Specialist - The objective of this project is to minimize the rate of potential human/bear conflicts in the Northern Continental Divide and Greater Yellowstone areas. The focus of the effort will be prevention. The request is for 0.76 FTE in fiscal 1998 and 1.00 FTE in fiscal 1999 to establish a 0.50 FTE in the two areas of the state. The funding is general license fees for personal services in the amount of $34,002 in fiscal 1998 and $41,088 in fiscal 1999.

LFD Issue - Department representatives state that a similar position in Choteau has been successful in preventing and responding to bear-human conflicts. As a result, conflicts in the Rocky Mountain Front bear management area have decreased substantially between 1986 and 1994. Statistics provided by the department show that bear conflicts in Region 3 increased 110 percent from 1993 to 1994 and 74 percent from 1994 to 1995. The primary factors for the increase are increases in: 1) commercial and recreational development and use in bear habitat; and 2) bear numbers. Education of hunters, recreationists, residential homeowners, and dude ranch owners will be a large part of the duties of this position. This new proposal is for two 0.5 FTE, split between Kalispell and Bozeman. The person filling the position in Bozeman would be working the Yellowstone ecosystem. Currently, these positions are funded through LCA (see the LFD issue in the "Agency Issues" section) from private and federal sources. However, the executive funds this position entirely with money from the general license account. Since the position will be dealing with the federal government, homeowners, landowners, recreationists, dude ranch owners, and outfitters, other funding alternatives could be explored. Possibilities are: 1) Pittman-Robinson federal funds; 2) federal Park Service funds; 3) outfitter license fees; 4) general fund; 5) park user fees; and 6) fees for services rendered. If approved, the legislature may want to: 1) ask the department how the success of this and current positions will be measured; and 2) request that the 2001 biennium budget for this activity be presented separately along with measures of its performance.

2) Blackfooted Ferret Reintroduction - The proposal is to continue the efforts to reintroduce the blackfooted ferret to the Fort Belknap Reservation and work cooperatively with the tribe to establish a ferret population there. The funding will be cost-shared with federal Pittman Robertson funds at $56,250 each year and general license fees at $18,750 each year.

LFD Issues - Three issues are raised with this new proposal.

1) This project was begun by the U.S. Fish and Wildlife Service in fiscal 1995. The state assumed the ongoing management responsibility beginning fiscal 1996. The 1995 legislature approved $100,000 in federal funds for this activity only for the 1997 biennium. If the new proposal is approved, the legislature may want to consider funding the new proposal entirely with federal funds, as it was funded in the 1997 biennium.

2) The department should report on the results of its compliance with provisions in 87-5-108, MCA. The statute requires the Governor to review other endangered species programs administered the Governor's Office by and encourage other state and federal agencies to assist in the state's endangered species efforts. Section 87-5-121, MCA, provides for a non-game account to be used for endangered species programs. The executive is requesting expenditures from the non-game wildlife account of $17,855 in fiscal 1998 and $18,379 in fiscal 1999. (These expenditures are requested by the Parks Division.) Section 87-5-122, MCA, requires the Fish, Wildlife and Parks Commission to annually review projects funded from this account. The department should report on the commission's priorities for projects funded from this source and use the information to help prioritize the limited funding from this account between these uses and this new proposal.

3) The legislature may want to ask the department if funding of non-game activities is a proper use of hunting and fishing license money. Federal funds may be jeopardized if the money is used improperly.

Executive Language Recommendation

The following language is recommended for the Wildlife Division in HB 2:

> "Item X contains $94,235 in fiscal 1998 and $194,235 in fiscal 1999, which is a biennial appropriation that may be combined and spent in either year of the biennium."

LFD Issue **- This language references the present law adjustments for upland game bird habitat enhancement. However, language only includes the $288,470 in increases for the biennium, not the $711,530 included in the base for the 1999 biennium. If the executive wants biennial appropriations for the entire program, the $1.0 million should be requested in fiscal 1998 and designated as a biennial appropriation. If the legislature concurs, this would provide line items in HB 2 for these purposes that the legislature could also restrict to this purpose only. The proposed language is unnecessary.**

5201 06

Department of Fish, Wildlife & Parks — **Parks Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	86.32	(0.50)	0.75	86.57	(0.50)	1.00	86.82	86.57
Personal Services	2,287,023	120,639	18,713	2,426,375	122,510	24,951	2,434,484	4,860,859
Operating Expenses	1,708,368	13,374	224,276	1,946,018	113,670	224,276	2,046,314	3,992,332
Equipment	276,943	(3,081)	0	273,862	(192,861)	0	84,082	357,944
Grants	62,629	319,974	0	382,603	319,974	0	382,603	765,206
Transfers	0	25,000	0	25,000	25,000	0	25,000	50,000
Total Costs	$4,334,963	$475,906	$242,989	$5,053,858	$388,293	$249,227	$4,972,483	$10,026,341
General Fund	293,643	7,134	0	300,777	6,297	0	299,940	600,717
State/Other Special	3,859,347	204,955	0	4,064,302	180,329	0	4,039,676	8,103,978
Federal Special	181,973	263,817	242,989	688,779	201,667	249,227	632,867	1,321,646
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$4,334,963	$475,906	$242,989	$5,053,858	$388,293	$249,227	$4,972,483	$10,026,341

Program Description

The Parks Division is responsible for conserving the scenic, historic, archaeologic, scientific, and recreational resources of the state and providing for their use and enjoyment. The program includes 41 parks, 13 affiliated lands such as rifle ranges and recreation sites managed by local and federal agencies, and 320 fishing access sites. Other programs administered by the division include motorized and non-motorized trails, land and water conservation fund, capitol grounds maintenance, and the Montana Conservation Corps.

The program work is mandated primarily in Title 23, Chapter 1, MCA.

Funding

Executive funding for the Parks Division is shown in Table 9. General fund provides a portion of the support and maintenance of parks and historic sites.

Table 9
Parks Division Executive Funding
1999 Biennium

Funding Source	Fiscal 1998	Fiscal 1999
General Fund	$300,777	$299,940
State Special Revenue		
Mototboat Fuel Taxes	$1,041,651	$1,029,719
Coal Tax Trust Interest	788,793	784,344
Park Fees	759,658	603,068
General License Account	633,674	639,633
Snowmobile Fuel Taxes	459,113	610,140
Snowmobile Registration	129,469	52,656
Fishing Access Site Earmarking	107,710	111,460
Off-highway Vehicle Fuel Taxes	80,595	142,603
Off-highway Vehicle Decals	46,184	47,931
Non-game Wildlife-Tax Checkoff	17,455	18,122
Subtotal	$4,064,302	$4,039,676
Federal Funds		
Wallop-Breaux	$361,768	$367,866
National Recreational Trails	190,000	190,001
Land & Water Conservation Fund	112,011	50,000
Fish & Game Account (LCA)	25,000	25,000
Subtotal	$688,779	$632,867
Total Funds	$5,053,858	$4,972,483

The largest state special revenue source is motorboat fuel taxes, followed by parks coal tax trust earnings, park fee revenue, the general license account, snowmobile fuel taxes, off-highway vehicle fuel taxes, fishing access maintenance and acquisition fee revenue, and off-highway vehicle and snowmobile registration fees. The department receives the following allocations of gasoline dealers' license taxes: 1) nine-tenths of one percent for maintenance of parks with motorboat use; 2) one-eighth of one percent for off-highway vehicle safety, repair of off-highway vehicle damage, and facility development; and 3) fifteen-twenty eighths of one percent for snowmobile safety, facility development, enforcement, and control of noxious weeds. Non-game wildlife income tax check-off donations are included in funding for this division. Of total coal severance tax revenue collections, 1.27 percent is deposited into a non-expendable trust, with the interest from this trust allocated for maintenance of state parks and historic sites. The general license account and earmarked fishing license fees are used to maintain fishing access sites. The general license account also funds a portion of the watchable wildlife program.

Program expenses are also funded from the lodging facility use tax. However, since it is statutorily appropriated, appropriations are not included in HB 2 (the department received 6.5 percent of lodging facility tax collections for maintenance of state park facilities).

Capitol grounds maintenance is funded via a proprietary account with rate charges based on the size of office space. The legislature does not appropriate these funds, but approves the rates.

Federal sources of funds include Wallop-Breaux funds, land and water conservation fund (LWCF), and funds from the National Recreational Trails Fund.

Executive Present Law

5201 06 Department of Fish, Wildlife & Parks Parks Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	120,352	122,223
02		Inflation/Deflation	35,743	28,289
03		Fixed Costs	(10,955)	(10,955)
		Total Statewide Adjustments	$145,140	$139,557
Significant Present Law Adjustments				
04	91004	Weed Control	6,674	6,674
05	91005	Biennial Grants	319,974	319,974
06	91006	Park Non-Discretionary Equip	0	0
07	91007	Park Discretionary Equipment - Base	0	0
08	91008	Park Discretionary Equipment - Snow	0	0
09	91009	Legislative Contract Authority	25,000	25,000
10	91010	State Park Brochures	0	30,000
11	91011	Federal Money For Maintenance	60,000	60,000
12	91012	Replacement Equipment	(3,081)	(192,861)
13	91013	Operating Expenses	(138,956)	(138,206)
14	91014	Grants From State Sources	61,500	138,500
		Total Significant PL Adjustments	$331,111	$249,081
Other Base Adjustments			($345)	($345)
		Grand Total Present Law Adjustments	$475,906	$388,293

LFD Issue - The present law personal services increases of $120,352 fiscal 1998 and $122,223 in fiscal 1999 are misleading. In fiscal 1996, the department spent $132,497 for unbudgeted expenses which, if removed from the base, would increase the adjustments by that amount. In addition, the executive is requesting vacancy savings of $74,315 in fiscal 1998 and $74,894 in fiscal 1999. If personal services were fully funded, the adjustments would increase by these amounts.

LFD Issue - The executive is requesting an additional $7,134 general fund in fiscal 1998 and $6,297 in fiscal 1999. Of the total general fund spent in fiscal 1996, $10,978 was spent in the capitol grounds maintenance program. Since this program is proprietarily funded, the legislature does not appropriate the funding, but rather sets the rate charged to other agencies. The rate proposed by the executive includes amounts necessary to replace the amount of general fund spent in 1996. The executive requests that the general fund spent in the capitol grounds maintenance program be switched to fund park operational costs.

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Weed Control - To be effective, a weed control program must continue for several years depending on the circumstances. The 1999 biennium will be the third and fourth year of this earmarked program. Due to a wetter-than-normal spring, the division was not able to spend the entire fiscal 1996 weed control allocation. The request is to bring the earmarked funding to the 1997 biennial amount. The net request is $6,674 each year of the 1999 biennium.

LFD Comment - The executive funds this increase with $3,105 general fund each fiscal year, with the rest of the funding from the general license account.

5) Biennial Grants - Federal Land and Water Conservation (LWCF) grants and National Recreational Trails grants pass through the department to local governments, federal agencies, and local trail clubs for assistance in providing public outdoor recreation areas on a cost-share basis. In addition, FWP grants funds to local and federal governments and trail clubs to develop, maintain, and repair OHV facilities. The net increase is $319,974 each year of the 1999 biennium.

LFD Issue - The increase as presented is misleading. Because the department recorded $139,403 of grant expenditures as contracted services expenditures, the increase for grants is really $139,403 less than indicated.

There should be a corresponding increase in the "Operating Expenses" adjustment below.

The true increase of $180,571 each fiscal year in grants is comprised of the following:

> **1) LWCF - $38,049 in each fiscal year. In fiscal 1996, $11,952 was spent. The executive is requesting a total of $50,000 in fiscal years 1998 and 1999. As in past biennia, in fiscal 1996 the department used some of this authority for purposes other than that for which it was appropriated.**
>
> **2) OHV - $2,800 in each fiscal year. In fiscal 1996, $139,803 was spent. The executive is requesting a total of $142,603 in fiscal years 1998 and 1999.**
>
> **3) National Recreational Trails - $156,289 each fiscal year. In fiscal 1996, $33,711 was spent. The executive is requesting a total of $190,000 in each fiscal year.**
>
> **4) Motorboat Pump Out Grant - Nothing is requested in the 1999 biennium, for a reduction of $16,567 each fiscal year.**

The Executive Budget improperly funds the request for LWCF and OHV grants. The legislature should ask the department to fund these items properly before making a decision. To provide the correct fiscal 1998 appropriation for the executive request, federal funds should be reduced by $62,011 and state special revenue increased by $62,008. The legislature may also want to restrict the grant appropriations to their specific purposes.

9) Legislative Contract Authority - LCA is requested to continue at $25,000 each year of the 1999 biennium to carry out parks operational and promotional projects by contracting with federal entities.

LFD Comment **- Please see the LFD issue in the preceding "Agency Issues" section for a discussion of LCA.**

10) State Park Brochures - Approximately every other year, 100,000 to 150,000 state park brochures are printed. This brochure is the main communication device the department uses to let citizens know where the parks are located and the facilities available at each site. This printing was not done in fiscal 1996. In fiscal 1999, there is $30,000 requested from state parks fees.

LFD Comment **- Some historical information on Publication and Graphics printing costs might be useful. The department spent $17,986 in fiscal 1994, $57,780 in fiscal 1995, and $20,921 in fiscal 1996. At the agency request, the 1995 legislature appropriated $30,232 in fiscal 1996 and $31,608 in fiscal 1997. Although a slightly greater amount was appropriated in fiscal 1997, it does not match the $30,000 increase of this requested. The department will print the brochures in fiscal 1997 from authority appropriated for other purposes. Funding is from park fees.**

11) Federal Money for Maintenance - The 1995 legislature authorized $60,000 each year of the biennium of federal Wallop-Breaux money to help operate department motorboat sites maintained by the Parks Division. A transfer of LWCF fund obligations had to occur before the department was eligible to use this source of federal funds. The transfer of federal obligations is now complete and the application for federal aid to assess the Wallop-Breaux monies has been sent to the federal government. Because of the delay in the transfer, none of the $60,000 of authority was used in fiscal year 1996, and subsequently there was no roll forward as part of the base budget. This authority, $60,000 each year of the 1999 biennium, is requested because a change in federal law now allows sites which were purchased or developed with LWCF monies to be

maintained with federal funds. These funds will be used to keep up with maintenance needs due to increased use, more sites in the system, and more facilities to maintain as the system matures.

LFD Issue - The 1993 legislature first approved a $60,000 new proposal in fiscal 1995 for additional operation and maintenance costs for fishing access sites. The legislature was told that by consolidating sites that had received LWCF money (these federal funds can not be used for maintenance on these sites), the number of sites eligible to receive Wallop-Breaux funding would increase. The 1995 legislature, at the request of the executive, continued the funding at $60,000 each year of the 1997 biennium. Nothing was spent in fiscal 1996. Statute requires that a portion of fishing license fees be used to purchase and maintain fishing access sites. However, the amount spent on maintenance cannot exceed 25 percent of the total amount collected. Since additional federal funds will become available to offset state funding, the legislature should consider this adjustment as a funding switch. If the legislature approves the funding switch, it should reduce general license account funding and/or earmarked fishing fees by $60,000 each fiscal year; with no change in present law services provided.

12) Replacement Equipment - The replacement equipment request includes an industrial lawn mower, 15 to 20 multi-channel high band radios for efficiency and security of visitors and staff, a four-wheel drive one-ton truck with snowplow, two flatbed pickups to haul maintenance equipment, two copy machines, sweepster and sweepster attachment to clean gravel and snow from parking areas and walkways on capitol grounds, utility trailer, two small utility vehicles for fence repair and ground maintenance, two snowgroomers, five tractor mowers, and a fork lift. The cost is $305,767 in fiscal 1998 and $88,580 in fiscal 1999. Funding is from snowmobile fuel tax, license dollars, state parks miscellaneous fees, and the capitol grounds proprietary account. A biennial appropriation of $190,000 for snowgroomer replacements is requested to purchase two units simultaneously to obtain a better price. A non-replacement generator is needed as a backup power supply for the fire protection system at Bannack State Park. The equipment is essential to provide protection of resources regardless of weather or electric supply. The cost is $16,595 in fiscal 1998 from interest on the coal tax trust account. Traffic counters are requested to provide reliable visitation data at state parks and fishing access sites, given the annual increasing public interest and use of these sites. Traffic counters will allow allocation of resources to meet visitor demands on site protection. The cost is $5,000 each year of the biennium. A sand spreader is requested to make access roads and boat ramps safe to accommodate increases in winter use by Montana anglers and to reduce traffic accidents. The cost is $3,500 in fiscal 1998 from the general license account. Four Global Positioning Units are requested at $4,500 of snowmobile gas tax each year of the biennium. This new technology will help FWP inventory and locate trails to keep them out of wilderness and wilderness study areas, sensitive wintering and calving ranges, and culturally sensitive areas. In the equipment request there is a net decrease of $3,081 in fiscal 1998 and a net decrease of $192,861 in fiscal 1999.

LFD Comment - Funding of the requested equipment is entirely from park fees. Proprietary funds can not fund any of the above equipment since proprietary funds are no longer budgeted by the legislature. If money for the purchase of the sweepster mentioned above($27,407) is included in the executive's HB 2 request, it should be removed from the "Replacement Equipment" request since the proprietary rate already includes money for it.

13) Operating Expenses - A small increase in overtime, $287 each year of the biennium, is requested to pay for work performed on state holidays, park caretaker time for site cleanup and maintenance, and completion of work projects. A request of $750 in fiscal 1999 for consulting to monitor and develop survey plots for weed management is requested. The net decrease is $138,956 in fiscal 1998 and $138,206 in fiscal 1999.

LFD Issue - The decrease is misleading. Because the department recorded $139,403 of grant expenditures as contracted services expenditures, this adjustment should be increased by $139,403 each fiscal year. There

should be a corresponding decrease in the "Grants" adjustment above. Funding is from the general license account.

14) Grants from State Sources - An increase in grants to local snowmobile clubs for trail grooming in the amount $61,500 in fiscal 1998 and $138,500 in fiscal year 1999 is requested due to increased public use and fuel tax collections.

LFD Comment **- Funding is from gasoline fuel taxes allocated for snowmobile users and from snowmobile registrations. The executive budgets these increases as operational costs, not as grants. The total executive request for the snowmobile program is $588,582 in fiscal 1998 and $662,796 in fiscal 1999.**

Other Base Adjustments - Numerous decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

5201 06

Department of Fish, Wildlife & Parks — **Parks Division**

Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Fed $ For Motorboat Site O&M	0.75		242,989	242,989	1.00		249,227	249,227
	Total For New Proposals	0.75		$242,989	$242,989	1.00		$249,227	$249,227

Executive New Proposals

1) Federal Money for Motorboat Site Operation and Maintenance - The request allows the department to use federal Wallop-Breaux motor boat apportionment funds for operations and maintenance at water based state parks and fishing access sites with motorboat usage. The refunding will free state funds for operations and maintenance at both motorboat and non-motorboat sites. The efforts will include site maintenance, visitor safety, road grading and boat ramp repair, fence repair and installation, improved toilet cleaning and increased toilet pumping, increased number of host pads to encourage more on-site volunteer presence that also will enable more adjacent landowner contacts to address their concerns. The federal funds requested is for 0.75 FTE in fiscal 1998 and 1.00 FTE in fiscal 1999 divided into three or four seasonal positions and $220,000 in operating each year of the 1999 biennium.

LFD Issue **- The federal funds come from 12.5 percent of Wallop-Breaux money that is specifically allocated for motorboat sites. The department plans to move expenditures of these funds from their capital program, where they were spent on major development and maintenance of motorboat sites, to the operations budget where they will be spent for operations and maintenance on those sites. The proposal to transfer spending of the money from HB 5 (a capital projects appropriation bill) to HB 2 (an operations appropriation bill) will result in a change in spending for costs that are one-time-only in nature to those that will be ongoing. The money can be spent at fishing access sites with motorboat access and at water-based state parks. The department plans to use this increase to replace state funding at applicable fishing access sites. The replaced state money will then be used to increase spending on non-motorboat sites.**

Legislative Options

1) Approve the new proposal.

A) Consider this new proposal a funding switch. Request that the department provide the amounts of state funding (general fund, general license account, park fees, lodging facility use tax, and coal tax) spent in fiscal 1996 for operations and maintenance on eligible motorboat fishing access sites and water-based state parks. Include reductions of these funds (up to the amounts approved for this new proposal) in the new proposal. This will result in no net change in services.

B) Accept as requested. Direct the department to use the newly available state funds for non-motorboat parks.

2) Do not approve the new proposal.

Program Issues

Increasing Responsibility, Limited Money

The following discussion focuses on the dilemma facing the Parks Division - increasing responsibility with limited funds to meet that responsibility. In addition, funds that could be used to meet that responsibility are often used to acquire additional responsibility.

Background

The Parks Division ranks low in comparison to other states in a number of key indicators as the following table shows.

Table 10
Parks Division
Park Statistics

	Budget	Budget Per Park	Cost Per Visitor	Employees	Employees Per Park	Average Park Size
Montana	$2,948,926	$56,710	$1.84	150	2.9	283
California	164,408,000	597,847	2.51	1,802	6.6	NA
Idaho	5,778,990	214,037	2.30	360	13.3	829
North Dakota	1,826,695	58,925	1.87	206	6.6	808
Wyoming	3,335,745	62,938	1.64	132	2.5	10,214

From 1985 and 1995, the department estimates that state park visitations have increased 21 percent to 2.7 million visitors in 1995. This compares to: 1) Idaho - 2.5 million; 2) Wyoming - 2.0 million; 3) North Dakota - 1.0 million; and 4) South Dakota - 6.2 million. However, amounts appropriated for major park maintenance and special projects have only addressed an insufficient percentage of identified needs: 1) 59 percent in fiscal 1995; 2) 13 percent in fiscal 1996; and 3) 8 percent in fiscal 1997.

In fiscal 1991, the State Park Futures Committee, composed of legislators and citizens, recommended an increase of $6.3 million and 30.0 FTE maintained over five years to establish a quality park system. In fiscal 1991, the total operational budget of the Parks Division was $4.3 million and 96.18 FTE. In fiscal 1996, the comparable budget was $5.1 million and 91.39 FTE (including statutory appropriations and non-budgeted funds), less than the $10.6 million and 126.18 FTE recommended by the committee.

Increased Fees

The Parks Division has been very creative in its efforts to provide services, including recruiting volunteers, forming partnerships with various organizations, and finding private funding sources. However, the Fish, Wildlife and Parks Commission approved fee increases at its December 1996 meeting in an effort to meet increasing demands for services, increased costs, and unfunded major maintenance. Beginning in 1997, 11 fees will be increased an average of 31.9 percent to raise an additional $279,829. However, at the same time, the department (with legislative approval in most cases) has expanded its park responsibilities through various land transactions. These transactions have not only increased responsibilities, but were partially funded with money that could have been used to meet existing demands for services. (This money came from park fees, lodging facility use taxes, and coal tax interest.)

Increased Responsibilities

The following are two examples of projects that have increased the Parks Division's responsibilities. These are chosen to illustrate the issue because they: 1) are recent; 2) are projects that are not yet beyond the stage of no return; 3) involve an increase in the Park Division's responsibility; and 4) involved money that could have alternatively been used for operations and maintenance.

1) Ulm Pishkun State Park - The 1993 legislature approved the expenditure of $200,000 of coal tax revenue to develop a master site plan for the park. The 1995 legislature, at the request of the department, appropriated $1,063,000 for phase I at Ulm Pishkun. Phase I consists of acquiring land and building an interpretative center. Of the amount appropriated, $493,000 was from park fees and lodging facility use taxes. This was money that alternatively could have been used to operate and maintain existing facilities. The department has estimated that once it is fully operational, the new park will cost $30,000 per year to maintain and operate. (The executive request contains no identifiable increase for this purpose.) As part of HB 5 for the 1999 biennium, the executive is requesting an additional $1,250,000 to complete phase II of the project, $910,000 of which is money alternatively eligible to meet existing needs at other state parks. In October, the Land Board approved the department's purchase of 1,232 acres at the site for $395,000. The money comes from: 1) $345,000 in exchange value for department land at Bridger Bowl; and 2) $50,000 from park fees.

In a related issue, the Department of Natural Resources and Conservation (DNRC) owns 480 acres at Ulm Pishkun, 170 acres of which the Department of Fish, Wildlife and Parks purchased an easement to for $5,000 in 1971. If the Turner land exchange, now under consideration by the Land Board, is completed and approved in its present form, DNRC would receive an additional 1,052 acres at the site. These two agencies have had very preliminary discussions of possible options of leasing or exchanging their portions of the site.

2) Spring Meadow State Park - The 1995 legislature, at the request of the executive, appropriated $625,000 to expand the park by buying adjacent land and three buildings. The buildings are to be remodeled into FWP offices, an educational and learning visitor center, and a nature center. A new animal shelter would be constructed. The department has estimated that once fully operational, the new addition will cost $23,000 per year to maintain and operate. (The executive request contains no identifiable increase for this purpose.) Of the amount appropriated, $250,000 is from park fee money. This money is alternatively eligible to meet existing demands for services at other state parks.

Policy Issue

Should the legislature continue to provide funding in HB 5 for capital projects and acquisitions that result in an unfunded increase in operation and maintenance costs for the Parks Division? Alternatively, should the legislature use the money to increase operation and maintenance funding to meet existing needs at other parks?

Legislative Options

1) Coordinate the budgeting of park fee, coal tax interest, and lodging facility use tax money between the Natural Resources Appropriation Subcommittee and the Long-range Building Subcommittee to prioritize the expenditure of limited funds.

2) Direct the department to certify that operation and maintenance at existing state parks are adequately funded in HB 2 before allowing the department to submit any capital requests to spend park fees, lodging facility use taxes, or coal tax revenues. Direct the department to prioritize its parks capital project requests in HB 5 with its operations and maintenance request in HB 2.

3) Reduce planned expenditures - The legislature could examine pending projects that have not yet been started to determine if expenditures should be made as planned or if the money would be better used to maintain existing facilities.

4) The legislature may want to require the department to report on whether it plans to obtain additional easements or property at the Ulm Pishkun site if the Turner land exchange is approved, and whether the addition would add to the responsibilities of the Parks Division.

<u>Teaming With Wildlife</u>

Federal legislation called "Wildlife Diversity Funding Initiative" (also known as Teaming With Wildlife) is being considered. The federal legislation proposes a 0.25 to 5.0 percent nationwide excise tax on outdoor recreational equipment that would raise an estimated $350 million yearly. As a comparison, Pittman-Robertson and Wallop-Breaux excise taxes generate about $400 million yearly. If approved at the federal level, the additional sales tax money would be allocated to states based on their population and size. The money would be used for: 1) conservation - "sustain a diverse array of fish and wildlife and their habitats, with an emphasis on preventing species from becoming endangered"; 2) recreation - "enhance the outdoor recreational experience" through trails, viewing blinds, and protection of the land and water base; and 3) education - "foster a responsible stewardship ethic" through interpretation efforts along trails, nature centers, advice to landowners on enhancing their lands for recreation, and educational programs.

Montana's efforts to promote this proposal are coordinated by the Parks Division. Since the division did not have enough money, funds in the general license account were used to fund the initiative. In fiscal 1996, the department diverted authority the legislature appropriated for other program activities and spent $18,558 for costs associated with Teaming With Wildlife. Although not specifically funded by the 1995 legislature, the department has established a budget of $17,627 in fiscal 1997 for this purpose. Expenditures for this item from the general license account ($17,423 in personal services and $1,135 in operations) are in the executive present law request.

Currently, this federal proposal is in draft form. It may be introduced to Congress as part of an omnibus tax reform bill next spring. Although the department has formed an internal committee to plan and evaluate the need for the money, the executive request does not include any new proposal in anticipation of the federal grant funds. Under budget amendment statute, if federal funds were not anticipated by the legislature, the Office of Budget and Program Planning can establish appropriations to spend the money through the budget amendment process.

Policy Issues

1) Money in the general license account was used to fund this effort. The legislature may want to determine if it wants to fund the endorsement efforts of a parks-related program with hunting and fishing license revenue.

2) Does the legislature want to continue funding the endorsement efforts on behalf of this federal proposal?

A) Yes. Approve the amounts in the Executive Budget.

B) No. Reduce the Executive Budget in the Parks Division by $17,627 each fiscal year.

3) Does the legislature want to consider a new state program to spend the possible federal funds if the federal legislation is approved?

A) Yes. Ask the department to prepare a new proposal to bring before the subcommittee for discussion. Questions to be asked include the following: Could the money be used to offset general fund or other funding in the Parks Division or other divisions? Could it be used to offset lodging facility use tax money in the Montana Promotion Division in the Department of Commerce? It might be argued that programs supported by hunting and fishing license money have benefited non-game wildlife. Therefore, can this money be used to reduce general license account expenditures?

B) No. Insert language in HB 2 expressing legislative intent that the department neither receive nor spend any of the federal funds.

5201 08

Department of Fish, Wildlife & Parks — **Conservation Education Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	22.25	0.00	0.38	22.63	0.00	0.50	22.75	22.63
Personal Services	776,305	64,164	12,642	853,111	67,938	16,635	860,878	1,713,989
Operating Expenses	967,336	35,311	49,350	1,051,997	31,748	54,350	1,053,434	2,105,431
Equipment	31,760	(9,761)	50,000	71,999	(5,761)	50,000	75,999	147,998
Grants	90,482	(482)	37,500	127,500	(62,682)	12,500	40,300	167,800
Transfers	0	20,000	0	20,000	20,000	0	20,000	40,000
Total Costs	$1,865,883	$109,232	$149,492	$2,124,607	$51,243	$133,485	$2,050,611	$4,175,218
General Fund	2,879	1	0	2,880	1	0	2,880	5,760
State/Other Special	1,522,684	49,074	19,492	1,591,250	(40,809)	23,485	1,505,360	3,096,610
Federal Special	340,320	60,157	130,000	530,477	92,051	110,000	542,371	1,072,848
Total Funds	$1,865,883	$109,232	$149,492	$2,124,607	$51,243	$133,485	$2,050,611	$4,175,218

Program Description

The Conservation Education Division, through its Helena office and seven regional information officers, provides the department's primary information and education program. Its responsibilities include: 1) distributing public information through news releases, audio-visual materials, brochures, and public service announcements; 2) coordinating youth education programs; 3) printing hunting, fishing, and trapping regulations; 4) coordinating the hunter, bowhunter, snowmobile, boat, and off-highway vehicle education and safety programs; and 5) providing reception services for the department's Helena headquarters. The program publishes the Montana Outdoors magazine, produces 16mm color films, radio and television public service announcements, a weekly television report, and maintains a film lending library.

The program work is mandated primarily in Title 87, Chapters 2 and 5; and Title 23, Chapter 2, MCA.

Funding

The general fund finances activities that had been funded with revenue from fines de-earmarked by SB 83 (1995 session). The Conservation Education Division's largest funding source is revenue from hunting and fishing license fees. Other state special revenue sources include coal tax trust earnings, snowmobile and off-highway vehicle fuel taxes, and off-highway vehicle registrations. Federal funds consist of Pittman-Robertson and Wallop-Breaux funds and grants from the Coast Guard. Legislative contract authority is funded with federal funds.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issue **- The present law personal services increases of $64,164 fiscal 1998 and $67,938 in fiscal 1999 are misleading. In fiscal 1996, the department spent $42,578 for unbudgeted expenses which, if removed from the base, would increase the adjustments by that amount. In addition, the executive is requesting vacancy savings of $24,592 in fiscal 1998 and $24,656 in fiscal 1999. If personal services were fully funded, the adjustments would increase by these amounts.**

5201 08

Department of Fish, Wildlife & Parks Conservation Education Division Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	64,164	67,938
02		Inflation/Deflation	6,558	4,785
03		Fixed Costs	(301)	(301)
		Total Statewide Adjustments	$70,421	$72,422
Significant Present Law Adjustments				
04	79199	2 & 3 Personal Computers	0	0
05	91008	Ce Non-Discretionary Equip	0	0
06	91009	Program Transfer	12,000	12,000
07	91010	Shooting Range Biennial Appropriation	5,671	(58,319)
08	91011	Publications	11,320	11,320
09	91012	Off-Highway Vehicle Program	182	182
10	91013	Replacement Equipment	(9,760)	(5,760)
11	91014	Legislative Contract Authority	20,000	20,000
		Total Significant PL Adjustments	$39,413	($20,577)
Other Base Adjustments			($602)	($602)
		Grand Total Present Law Adjustments	$109,232	$51,243

6) Program Transfer - The Fisheries Division has been providing dollars to supplement the Conservation Education Division budget for angler education. The transfer of dollars will formalize that commitment, but will not result in a budget increase. The transfer amount is $12,000 each year of the 1999 biennium.

LFD Comment **- There is a corresponding negative adjustment in the Fisheries Division.**

7) Shooting Range Biennial Appropriation - FWP has expended approximately $120,000 per biennium for the last three biennia on the improvement of public shooting ranges. A biennial appropriation is recommended because the expenditures are dependent on the flow of requests, timing of grants awarded, and work completed. The request is for $91,000 in fiscal 1998 and $28,800 in fiscal 1999. The net difference is an increase of $5,671 in fiscal 1998 and a decrease of $58,319 in fiscal 1999.

LFD Comment **- The executive is requesting a $119,800 biennial appropriation for the 1999 biennium. The request is for: 1) $115,000 in grants to local organizations for the development of safe shooting ranges; and 2) $4,800 in program administration (excluding personal services). The 1995 legislature appropriated $119,800 as a biennial appropriation for the shooting range program. Historical grant expenditures are: 1) $119,944 - 1993 biennium; 2) $120,131 - 1995 biennium; and 3) $90,914 - fiscal 1996. The executive is also requesting additional funding for this program in the "Hunter Education" new proposal.**

8) Publications - The Conservation Education Division enters into contracted services for a variety of purposes. This request of $11,320 each year is to cover increases in postage, paper and printing costs for a variety of division functions, including Montana Outdoors.

LFD Comment **- See the LFD issue about Montana Outdoors in the "Program Issues" section. The executive is requesting a total of $99,500 each fiscal year for Montana Outdoors subscription services.**

9) Off-highway Vehicle Program - The Conservation Education Division is responsible for administration of off-highway vehicle (OHV) safety and education. The general fund request of $182 each year of the 1999 biennium replaces OHV fine revenues.

10) Replacement Equipment - The replacement equipment request is for two large screen video projectors, an upgrade to an outdated existing video editing system, a compact tripod, and a slide projector. Also requested are two replacement personal computers for the regional information officers in fiscal 1998 and three replacement personal computers in fiscal 1999. The request is $22,000 in fiscal 1998 and $26,000 is fiscal 1999 for a net decrease of $9,760 in fiscal 1998 and $5,700 in fiscal 1999.

11) Legislative Contract Authority - Typically dollars are received from federal agencies in the course of a biennium. In the past, LCA has been utilized for cooperative information efforts, such as the production of brochures, radio, and television public service announcements. The request is for $20,000 each year of the biennium.

LFD Comment **- Please see the LFD issue in the "Agency Issues" section for a discussion of LCA.**

Other Base Adjustments - Numerous small dollar decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

5201 08
Department of Fish, Wildlife & Parks — Conservation Education Division
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Fwp Vol/Intern Coordinator	0.38		19,492	19,492	0.50		23,485	23,485
02	Hunter Ed Enhancement			130,000	130,000			110,000	110,000
	Total For New Proposals	0.38		$149,492	$149,492	0.50		$133,485	$133,485

Executive New Proposals

1) Volunteer/Intern Coordinator - The proposal is for a 0.38 FTE in fiscal 1998 and 0.50 FTE in fiscal 1999 at a cost for personal services and operating of $19,492 in fiscal 1998 and $23,485 in fiscal 1999. The agency coordinator position will recruit, train, and place volunteers and interns into positions that will enhance current department services and activities. The intent is to capture the interest expressed by volunteers in working with FWP and thus improve services and reduce the need for additional FTEs.

LFD Issue **- The executive funds this new proposal entirely from the general license account. To the extent the person filling the position will be coordinating park related activities (such as the Montana Conservation Corps), the legislature may want to review the use of hunting and fishing license money for this purpose. Federal funds may be jeopardized if the money is used improperly. To the extent that the person filling the position will be coordinating fish and wildlife activities, the general license account could be replaced by the amount of eligible federal cost share.**

2) Hunter Education Enhancement - The request includes two interactive shooting devices and the operational dollars for transportation, operation and maintenance of those devices. Travel and per diem is requested for volunteer instructors to travel to department-sponsored training opportunities. Per diem is requested for an advisory committee that would help develop an advanced Hunter Education Program. The match for the federal Pittman-Robertson dollars, which would be the funding source, is volunteer hours generated by hunter and bowhunter education instructors teaching the classes. Also requested is federal authority to provide additional dollars which will augment the existing public shooting range program. The proposal of $130,000 in fiscal 1998 and $110,000 in fiscal 1999 is for federal Pittman-Robertson funds.

LFD Issue **- Past legislatures have provided increased federal funding for the hunter safety program ($50,000 in the 1995 biennium and $140,000 in the 1997 biennium). The legislature may want to request the department to report on how these past program increases were used, the program impacts, and the changes in curriculum and emphasis. The main focus of the program is changing from gun safety to a broader one of hunter ethics. The legislature may want to determine if the department's goals for the program are still the legislature's goals for the program. Table 11 shows that, although expenditures have increased 48 percent since 1992, numbers of students taught have not kept pace.**

Table 11
Fish, Wildlife and Parks
Hunter Education Program

Fiscal Year*	Expenditures	Number of Instructors Bowhunter	Number of Instructors Hunter Ed.	Number of Students Bowhunter	Number of Students Hunter Ed.
1996	$233,613	473	975	2,082	5,930
1995	193,470	Unknown	899	2,540	6,540
1994	162,348	Unknown	765	2,198	6,527
1993	157,857	Unknown	735	2,084	6,555
1992	158,232	350	735	1,590	6,038

* Numbers of students are on a calendar year basis.

This new proposal represents an average 51.4 percent increase over the $233,613 spent in fiscal 1996 and also proposes a new program. The department should provide the legislature with justification for why the new "advanced hunter education" program is needed and why the current program is not sufficient. The current program is funded 96.7 percent with federal funds.

The new proposal also includes $37,500 in fiscal 1998 and $12,500 in fiscal 1999 for additional grants in the shooting range program. The executive is also requesting adjustments for this program in present law. The additional shooting range funds in this proposal should be considered as its own new proposal, separate from hunter education.

If this new proposal is not approved, the legislature may want to consider using the federal money to reduce general license account funding in present law or new proposals department-wide.

Executive Language Recommendation

The following language is recommended for the Conservation Education Division in HB 2:

> "Item X contains $91,000 in fiscal 1998 and $28,800 in fiscal 1999 which is a biennial appropriation that may be combined and spent in either year of the biennium."

LFD Issue - This language references the present law adjustments for the shooting range program. If the executive wants biennial appropriations for the program, the $119,800 should be requested in fiscal 1998 and designated as a biennial appropriation. The proposed language is unnecessary.

Program Issues

Montana Outdoors

The department publishes a magazine entitled Montana Outdoors. In fiscal 1996, the department spent $419,263 to publish and promote the magazine. These costs were paid for by $231,093 in revenue from magazine sales, hunting and fishing license revenue and coal tax interest of $180,027 and federal funds of $8,143.

Policy Issue - Does the legislature wish to use license and coal tax interest revenue to subsidize Montana Outdoors? If not, the following options are available:

1) Reduce the present law request by $180,027 ($5,367 coal tax interest and $174,660 license revenue).

2) Approve number 1 above and direct the department to establish an enterprise fund. Federal revenue and revenue from magazine sales deposited to the account would fund all magazine expenses.

5201 09

Department of Fish, Wildlife & Parks — **Department Management**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	47.13	0.50	0.00	47.63	0.50	0.00	47.63	47.63
Personal Services	1,667,000	103,072	0	1,770,072	108,031	0	1,775,031	3,545,103
Operating Expenses	1,081,765	156,587	30,000	1,268,352	143,463	30,000	1,255,228	2,523,580
Equipment	51,642	(16,042)	0	35,600	(35,642)	0	16,000	51,600
Grants	164,000	(4,000)	0	160,000	(4,000)	0	160,000	320,000
Transfers	0	135,000	0	135,000	135,000	0	135,000	270,000
Total Costs	$2,964,407	$374,617	$30,000	$3,369,024	$346,852	$30,000	$3,341,259	$6,710,283
State/Other Special	2,442,919	276,936	30,000	2,749,855	245,209	30,000	2,718,128	5,467,983
Federal Special	521,488	97,681	0	619,169	101,643	0	623,131	1,242,300
Total Funds	$2,964,407	$374,617	$30,000	$3,369,024	$346,852	$30,000	$3,341,259	$6,710,283

Program Description

The department Management Division is responsible for: 1) overall department direction regarding policy, planning, program development, guidelines, and budgets; 2) liaison with the Governor's Office and the legislature; 3) interaction with the Fish, Wildlife and Parks Commission; 4) decision-making for key resource activities affecting the department; 5) administration of seven major divisions that provide program development and staff support; 6) supervision of seven regional offices that are responsible for program implementation; 7) legal services for the department; and 8) liaison with Montana's Indian tribes and with other state and federal agencies.

Funding

The Management Division operating budget is funded from the general license account and a portion of the indirect cost assessments on federal grants and non-federal accounts. The proposed rate for fiscal 1998 and fiscal 1999 is 10 percent for operational expenditures and 4.6 percent for capital expenditures. These assessments are handled as non-budgeted transfers to the general license account, from which expenses are paid. The fiscal 1997 federal overhead rate of 17.2 percent is applied to federal grants, which include Pittman-Robertson, Wallop-Breaux, Corps of Engineers, and Coast Guard funds. Legislative Contract Authority (LCA) is primarily for support staff associated with contracted mitigation activities funded by the Bonneville Power Administration.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issue **- The present law personal services increases of $101,542 fiscal 1998 and $106,501 in fiscal 1999 are misleading. In fiscal 1996, the department spent $89,863 for unbudgeted expenses which, if removed from the base, would increase the adjustments by that amount. In addition, the executive is requesting vacancy savings of $54,335 in fiscal 1998 and $54,488 in fiscal 1999. If personal services were fully funded, the adjustments would increase by these amounts.**

5201 09

Department of Fish, Wildlife & Parks
Department Management

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	101,542	106,501
02		Inflation/Deflation	2,558	1,890
03		Fixed Costs	(11,723)	(11,723)
		Total Statewide Adjustments	$92,377	$96,668
Significant Present Law Adjustments				
04	91001	Commission Meetings	11,235	11,235
05	91002	Contracts	18,884	18,884
06	91003	Area Office Adjustment	99,931	100,100
07	91004	Water Rights	0	0
08	91005	Weed Control	1,021	1,021
09	91006	Regional Hq Support	0	0
10	91007	Cyclical Printing	3,479	(9,146)
11	91008	Operating For Upgraded Phones	13,657	13,657
12	91009	Dm Non-Discretionary Equip	(16,042)	(35,642)
13	91010	Grants	(4,000)	(4,000)
14	91011	Legislative Contract Authority	135,000	135,000
15	91012	Cost Share For Habitat Improvements	19,075	19,075
		Total Significant PL Adjustments	$282,240	$250,184
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$374,617	$346,852

With the exception of the legislative contract authority adjustment and $1,530 of the "FWP Commission Meetings" adjustment, all of the present law adjustments below are funded from the general license account.

4) FWP Commission Meetings - In order to provide more opportunity for public input on fish and wildlife issues, the proposed number of commission meetings and work sessions increased from 12 to 16 per year. The request in per diem and other operating expenses of $11,235 each year of the 1999 biennium restores the amount that was authorized for the current biennium and is from general license and federal overhead funds.

LFD Issue **- The 1995 legislature already provided funding beginning in fiscal 1996 necessary to increase the number of commission meetings and work sessions from 12 to 16. This adjustment includes $1,530 for per diem. The remainder is for extra travel and meeting expenses.**

5) Contract Support - The department is requesting $298,000 to contract for legal, secretarial, and professional services each year of the 1999 biennium. Fiscal 1996 actual expenditures were $279,196. The amounts requested are $18,884 per year more than the actual expenditures of the base period. Approximately $3,000 per year of the increase is for contract secretarial services in the regions during peak workload periods. The balance is for contract legal assistance related to water rights adjudication and court ordered costs associated with game farms. The request also includes $36,100 per year to continue attorney general office assistance in prosecuting complex criminal cases involving fish and wildlife.

LFD Issue **- The executive requests the following contracted services for each year of the 1999 biennium: 1) regional headquarter performance review - $30,000 (since the department anticipates that the review will be completed in the 1999 biennium, it should be designated as a one-time appropriation); 2) personnel training**

in communications, conflict resolution, public involvement and team building - $30,000 (the executive is already requesting continuation of the $28,356 spent in fiscal 1996 for training); 3) negotiations and cooperative fish and wildlife management agreements between FWP and the Indian tribes and for training of personnel in such matters - $30,000; 4) legal and technical assistance for the efforts to prevent species from becoming listed under the endangered species act - $35,000 each year; 5) Attorney General assistance in fish and wildlife cases - $36,100; 6) secretarial services at regional headquarters - $27,154; and 7) legal fees and court costs for game farm settlements and water rights adjudication - $109,826.

In fiscal 1996, the division used $12,204 of operational authority to hire an additional 0.5 FTE for secretarial support at regional headquarters. If the executive plans to continue this practice in the 1999 biennium, the FTE should be requested and funded as personal services costs (rather than contracts) so that expenditures reflect where the money is really spent.

The department request includes $36,100 each year to contract with the attorney general's office for assistance in prosecuting fish and wildlife cases - the same amount appropriated by the 1995 legislature. In fiscal 1996 the entire $36,100 appropriation was used for game farm prosecution costs plus $13,837 from other appropriations for a total of $49,937 spent on game farm prosecutions. The department has jurisdiction over game farm licensing, reports, fencing, classification, removal, inspection, and enforcement (87-4-409, MCA). The initial fee, based on the number of animals, ranges from $200 to $400 and the renewal fee ranges from $50 to $200 (87-4-411, MCA). The money is to be used to pay the department's costs associated with game farms. The department incurs costs in this division and in the Law Enforcement Division. However, because only $3,850 in license fees were collected in fiscal 1996, the general license account subsidizes this activity. The legislature may want to review the statutory fee structure in light of the department's expenses in carrying out its statutory duties and eliminate or reduce the general license account subsidy.

6) Area Office Adjustment - The 1995 legislature authorized area offices in Butte, Havre, Lewistown, Libby, and Hamilton. Partial implementation occurred in fiscal 1996 with the Havre and Butte offices coming on line. Lewistown will come on line in fiscal 1997. Full implementation is expected in the two remaining cities. Base adjustments are needed in rent, utilities, and phone costs for the remaining offices. The request is for $99,931 in fiscal 1998 and $100,100 in fiscal 1999. The requested amounts restore the budget to the amounts authorized by the 1995 legislature.

LFD Comment **- The 1995 legislature approved an executive new proposal for 2.5 FTE and $184,000 each year of the 1997 biennium to open staff offices in six cities. Authority was for full funding in both years to implement this new proposal. Since the proposal was not fully implemented until fiscal 1997, the division had excess appropriation authority available to use elsewhere in the department (see "Operating for Upgraded Phones" below). In fiscal years 1996 and 1997, statutory provisions allow the department to spend 30 percent of unused appropriations from the previous year. This provision terminates at the end of fiscal 1997.**

8) Weed Control - Due to an unusually wet spring, weed control around the regional headquarters was not implemented as planned. The request is for $1,021 each year of the 1999 biennium, the same amount approved during the 1995 legislative session.

10) Cyclical Printing - The request is for an additional $3,479 in fiscal 1998 to cover higher costs to print the 1997 edition of Montana law statutes. A related reduction of $9,146 is requested for fiscal 1999.

11) Operating for Upgraded Phones - Upgraded phone systems were installed in all regional offices to better handle the increasing number of phone call from the public. The request is for an increase of $13,657 over the base needed to operate

the upgraded system.

LFD Issue **- When setting the division's 1997 biennium budget, the 1995 legislature was not told of the department's intention to upgrade the telephone systems in all regional offices nor of the potential for increased ongoing costs. The legislature may want to direct the division to fund these ongoing costs from the same source as was used in fiscal 1996 and not provide direct appropriations for this increase.**

12) Replacement Equipment - The replacement equipment request of $35,000 in fiscal 1998 and $16,000 in fiscal 1999 is for three photo copy machines and three FAX machines for seven regional and area offices, two postage metering machines, a cash register, and a folding machine to fold up to four pages. The net decrease is $16,042 in fiscal 1998 and $35,642 in fiscal 1999.

13) Grants - Grants to the State Library for the Natural Resource Information System and the Natural Heritage Program are requested at $25,000 each year of the 1999 biennium. Additionally, $110,000 per year is requested for predator control conducted by the Department of Livestock. The total requested is approximately $4,000 less than the actual grant expenditures in fiscal 1996.

LFD Issue **- The executive is requesting $25,000 each fiscal year as a grant to the State Library to support NRIS and $25,000 each fiscal year for the Natural Heritage Program. The Department of Livestock is no longer actively engaged in providing coyote control, but contracts for the service from the federal Animal Damage Control (ADC). The legislature may want to direct FWP to contract directly with ADC for this service. Since coyotes are a detriment to the department's efforts to establish a black-footed ferret population, the legislature may also want to direct FWP to use this money to assist this effort (see the "Black-footed Ferret Introduction" new proposal in the Wildlife Division).**

14) Legislative Contract Authority - The 1999 biennium request is $135,000 per year. This is approximately $25,000 per year more than actual expenditures in fiscal 1996. The increase is related to contracted mitigation activities.

LFD Issue **- Please see the LFD issue in the "Agency Issues" section for a discussion of LCA. In funding present law base expenditures for the 1999 biennium, the executive replaces $48,849 of federal funding with funds from the general license account. Yet, the executive is requesting $135,000 to fund this present law increase from the same federal source. If the legislature does not approve the executive request for LCA, it could replace present law general license account funding with the federal funds.**

15) Cost Share Habitat Improvements - The Sikes Act was created by federal legislation to promote state/federal cooperation and cost sharing on habitat projects. The adjustment to the base in the amount of $19,075 is necessary to reestablish the program at previously authorized levels.

LFD Comment **- The 1995 legislature approved $85,000 of federal funds each year of the 1997 biennium. In fiscal 1996, $65,925 was spent. The executive is again requesting $85,000 each fiscal year.**

Other Base Adjustments - Numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

5201 09
Department of Fish, Wildlife & Parks **Department Management**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Survey Of Program Progress			30,000	30,000			30,000	30,000
Total For New Proposals			$30,000	$30,000			$30,000	$30,000

Executive New Proposals

1) Survey of Program Progress - The project is to evaluate the results of each of the four department programs. The proposal will provide structure and a mechanism for program staff to make comparisons, determine if the public is satisfied with outcomes of the programs, and forecast potential program progress. The cost is $30,000 each year of the biennium.

LFD Issue **- The executive funds this new proposal entirely with money from the general license account. To the extent that the money will be used to evaluate programs funded in whole or in part by federal funds, the general license account funding could be replaced by the amount of eligible federal cost share. A number of questions and issues raised in the budget analysis of the executive request for the department, as well as in the PBB for the Law Enforcement Division, entail measuring the results of programs in relation to funding. If the legislature appropriates funding for a program, it expects certain results. It should also expect an evaluation of the results so that future legislatures can judge the effectiveness of the program in relation to other programs. With limited funding, the evaluation and establishment of priorities is essential if the legislature is to be efficient in providing the most needed services.**

The department intends to focus this new proposal on evaluating programs from the standpoint of the users it serves. The legislature may want to direct the effort toward evaluating programs (in both present law and new proposals) from the viewpoint of the legislature - a viewpoint that may be broader than that of the users served by the department. The legislature may want to assign specific programs and performance measures and ask the department to evaluate and report back to the next legislature.

5301 00

Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Department of Environmental Quality				
FTE	324.05	(3.07)	6.20	327.18	(3.07)	9.25	330.23	327.18
Personal Services	10,729,841	1,331,962	202,799	12,264,602	1,308,968	296,988	12,335,797	24,600,399
Operating Expenses	13,645,198	2,392,507	423,306	16,461,011	1,376,650	562,093	15,583,941	32,044,952
Equipment	103,338	205,773	75,565	384,676	61,419	9,790	174,547	559,223
Capital Projects	20,810	(20,810)	0	0	(20,810)	0	0	0
Grants	1,175,576	183,573	0	1,359,149	145,273	0	1,320,849	2,679,998
Transfers	20,000	0	0	20,000	0	0	20,000	40,000
Debt Service	25,285	(1,785)	14,686	38,186	9,095	14,072	48,452	86,638
Total Costs	$25,720,048	$4,091,220	$716,356	$30,527,624	$2,880,595	$882,943	$29,483,586	$60,011,210
General Fund	1,559,309	510,109	43,102	2,112,520	494,728	49,872	2,103,909	4,216,429
State/Other Special	10,654,098	2,659,596	485,702	13,799,396	1,566,462	563,839	12,784,399	26,583,795
Federal Special	13,506,641	921,515	187,552	14,615,708	819,405	269,232	14,595,278	29,210,986
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$25,720,048	$4,091,220	$716,356	$30,527,624	$2,880,595	$882,943	$29,483,586	$60,011,210

Mission Statement

To protect, promote and enhance public health and environmental quality for the benefit of all Montana citizens.

Agency Description

The Department of Environmental Quality (DEQ) was created by the Fifty-fourth Legislature through a reorganization of environmental and natural resource agencies required by SB 234. The department was formed by combining the environmental programs and certain administrative functions from the former Department of Health and Environmental Sciences (DHES); the Energy Division and a portion of administrative functions from the Department of Natural Resources and Conservation (DNRC); and the Reclamation Division and certain administrative functions from the former Department of State Lands (DSL).

The department is responsible for regulating air quality, water quality, underground storage tanks, automobile wrecking facilities, hazardous waste facilities, solid waste management systems, and mining operations, and for siting and needs analyses of large-scale energy facilities. In addition, the department is the lead agency for reclamation and clean-up activities related to the federal and state superfund programs, leaking underground storage tanks, and regulation and permitting of mining conducted on private, state, and federal lands.

Supplemental Appropriation

Remediation Division

State special revenue of $900,000 for voluntary cleanup at three sites up to a maximum of $300,000 per site. Senate Bill 382, Chapter 584, *Laws of 1995*, created a mixed funding pilot program for voluntary cleanup that was intended to include this amount of state special revenue. However, the bill did not contain an appropriation, the authority was not amended into HB 2 upon passage, and a budget amendment could not be approved because the emergency criteria could not be met for state special revenue. Therefore, the projects have been pending approval of this recommended supplemental appropriation.

LFD Issue - SB 382 created (among other things) a pilot project for voluntary abandoned mine cleanup and reimbursement of remedial action costs. Clean-up efforts must be on three of the top ten sites from the abandoned hard-rock mine priority list. Upon approval of the voluntary plan by DEQ, the applicant may receive reimbursement for 90 percent of eligible costs, not to exceed $300,000. The applicant must complete remediation prior to making a claim for reimbursement. The legislature provided a source of money for the pilot project from 8.5 percent of metalliferous mines license tax revenue (deposited in the abandoned mines state special revenue account). Although the legislature debated providing an appropriation to spend the money, it did not do so. The department is requesting $900,000 of supplemental state special appropriation to spend the revenue allocated to the pilot project. The department is to submit reports to the 55th legislature detailing the success and difficulties of the pilot project. The pilot project terminates June 30, 1997. Under 17-1-504(2), MCA, the fund balance of the abandoned mines state special revenue account goes to the general fund upon termination. At the end of October 1996, there was $589,996 in the account with additional allocations to be made in 1997.

As of December 2, 1996, the department had received one application for the Joslyn Street Tailings site and had determined the level of proportionate liability. However, negotiations had not yet taken place. The Corbin Flats site has been identified as the second site, but the applicant was working on a resubmittal of the application. The third site had not yet been identified.

Timing is an important consideration. The supplemental appropriations bill in the 1995 session was passed and approved on April 28, 1995, two months before the end of the biennium. If this supplemental request was approved in a similar time-frame, it is questionable if remediation work could be completed and reimbursement requested before July 1997. Completion is required before reimbursement can be made. Since the law terminates at the end of June 1997, no mechanism would be in place to provide reimbursement after that date.

Legislative Options

1) Approve the supplemental request;

   a) amend statute to extend the life of the pilot for reimbursement of remedial costs only, but do not continue the diversion of the metalliferous mines license tax;

   b) amend statute to extend the life of the entire pilot including the diversion of 8.5 percent of metalliferous mines license tax revenue.

2) Do not approve the supplemental request;

   a) do nothing. The fund balance of the account will go to the general fund on July 1, 1997;

   b) amend statute to redistribute the metalliferous mines license tax revenue in the account. Options for redistribution include the current recipients of the revenue: 1) resource indemnity trust fund; 2) the reclamation and development account; 3) groundwater assessment account; 4) hard-rock mining impact trust account; 5) to counties experience fiscal impacts from mining; and 6) the same distribution percentages under 15-37-117, MCA that are effective July 1, 1997.

5301 00 Department of Environmental Quality						Biennium Budget Comparison		
Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	320.98	6.20	327.18	320.98	9.25	330.23	324.05	327.18
Personal Services	12,061,803	202,799	12,264,602	12,038,809	296,988	12,335,797	22,500,585	24,600,399
Operating Expenses	16,037,705	423,306	16,461,011	15,021,848	562,093	15,583,941	28,235,940	32,044,952
Equipment	309,111	75,565	384,676	164,757	9,790	174,547	343,588	559,223
Capital Projects	0	0	0	0	0	0	20,810	0
Grants	1,359,149	0	1,359,149	1,320,849	0	1,320,849	2,799,604	2,679,998
Transfers	20,000	0	20,000	20,000	0	20,000	299,500	40,000
Debt Service	23,500	14,686	38,186	34,380	14,072	48,452	30,329	86,638
Total Costs	$29,811,268	$716,356	$30,527,624	$28,600,643	$882,943	$29,483,586	$54,230,356	$60,011,210
General Fund	2,069,418	43,102	2,112,520	2,054,037	49,872	2,103,909	3,395,555	4,216,429
State/Other Special	13,313,694	485,702	13,799,396	12,220,560	563,839	12,784,399	23,624,349	26,583,795
Federal Special	14,428,156	187,552	14,615,708	14,326,046	269,232	14,595,278	27,210,452	29,210,986
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$29,811,268	$716,356	$30,527,624	$28,600,643	$882,943	$29,483,586	$54,230,356	$60,011,210

Agency Issues

Resource Indemnity Trust

Two major allocations of RIT interest fund department programs: 1) 18 percent to the hazardous waste/CERCLA account; and 2) six percent to the environmental quality protection account. For more in-depth information on RIT, please see the "Agency Issues" section in the Department of Natural Resources and Conservation (DNRC).

Natural Resource Reorganization

SB 234 (1995 session) reorganized three environmental and natural resource agencies into two, the Department of Natural Resources and Conservation and the Department of Environmental Quality.

Although the fiscal note did not identify the cost for each agency involved in the reorganization, a cost estimate of $100,000 was provided for the reorganization as a whole. For fiscal 1996, it was estimated that the entire reorganization would result in a reduction of 9.08 FTE with no net change in costs. It was anticipated that the savings from the FTE reductions ($100,000) would pay for the costs of moving and employee payouts. The source of funding for these costs was not identified.

Based on the fiscal note, the legislature did not reduce any budgets in fiscal 1996. HB 2 included reductions of 9.08 FTE and $303,392 in fiscal 1997. Although all the FTE were removed from DNRC, DEQ shared the reduction by transferring 4.07 FTE to DNRC in fiscal 1997. The funding for these FTE is not included in the executive request for the 1999 biennium.

In anticipation of requests from the legislature, the Legislative Finance Committee asked the departments affected by reorganization to keep track of associated costs during the 1997 biennium. Table 1 shows the amounts recorded for DEQ and DNRC.

Table 1
SB 234 Reorganization Costs
Natural Resource Agencies
Fiscal 1996

	DEQ	DNRC	Total
Costs			
Task Force	$8,703	$8,703	$17,406
Moving	18,106	79,583	97,689
Communications/Rewiring	34,690	1,607	36,297
Computer Network/Equipment	12,658	11,665	24,323
Remodeling	30,046	40,291	70,337
Total Costs	$104,203	$141,849	$246,052
Funding			
General Fund	$32,552	$113,363	$145,915
State Special	11,317	28,486	39,803
Proprietary	47,579		47,579
Federal	12,755		12,755
Total Costs	$104,203	$141,849	$246,052

The amounts in the table do not reflect: 1) intangible costs such as loss of productivity during the move; 2) time spent by managers and staff reorganizing; or 3) money spent by other agencies that assisted with the reorganization. Productivity is affected because time spent by personnel in the reorganization was time not spent on other activities the legislature had budgeted for and expected to be done.

As the table shows, total reorganization costs (as recorded by the agencies) in fiscal 1996 were $246,052. The fiscal note identified fiscal 1996 costs of $100,000, but anticipated that FTE reductions would provide equal savings. Analysis of positions eliminated in fiscal 1996 due to the reorganization shows that this savings was only $19,168. Therefore, the net cost of the reorganization in fiscal 1996 was $226,884.

New Department, New Implications

The Department of Environmental Quality was created at the start of fiscal 1996 by SB 234 (1995 session). This action, coupled with an internal reorganization and changes in federal funding, provides the legislature a unique opportunity to review its environmental policies. These changes offer the legislature the opportunity to establish its funding priorities rather than relying on the traditional incremental budgeting process. The following provides an explanation of the changes, implication, and options available to the legislature.

Double Reorganization

The 1995 legislature reorganized environmental and natural resource functions previously conducted by the Department of Natural Resources and Conservation, the former Department of Health and Environmental Sciences, and the former Department of State Lands. This new agency now administers most of the state programs that regulate and enforce environmental quality. In addition to the reorganization initiated by the legislature, the newly created DEQ reorganized internally during fiscal 1996. Programs which had been structured and budgeted along categorical lines (air, water, etc.) have been replaced with programs structured along functionality lines (enforcement, permitting, etc.). Table 2 shows the current and former structure of the department.

Program Emphasis Implications

In its internal reorganization, the new DEQ allocated resources to the new programs in proportions that reflected the department's priorities. Because there is no past history on the new structure, the legislature may want to ask the department to identify those priorities. The budget the department chose to allocate to the various divisions may provide insight as to the emphasis placed on the new divisions. Table 3 is provided to show various ways of comparing the budgets of the different divisions.

Table 2
Department of Environmental Quality
Internal Reorganization
Current and Former Structure

Current Programs	Former Programs
Central Management	Director's Office
Petroleum Tank Release Compensation Board	Petroleum Tank Release Compensation Board
Planning, Prevention, & Assistance	Central Services
Enforcement	Air Quality
Remediation	Environmental Remediation
Permitting & Compliance	Water Quality
	Waste Management
	Energy
	Reclamation

The department has allocated the highest percentage (34 percent) of its entire budget to the Permitting and Compliance Division and the lowest percentage (3 percent) to the Enforcement Division. Allocation of FTE are similar, with the highest percentage (32 percent) allocated to the Permitting and Compliance Division and the lowest (5 percent) to the Enforcement Division.

Table 3
Department of Environmental Quality
Comparisions by Division
Executive Budget

Division	Percent Total Budget	Percent FTE	Pecent GF of Div. Funding	Percent $ New Proposal	Percent FTE New Proposal
Central Management *	6.89%	11.77%	1.07%	22.45%	9.76%
Petro Tank Release Compensation Bd	4.33%	7.64%	0.00%	8.83%	0.00%
Planning, Prevention, Assistance	22.43%	26.64%	13.42%	15.90%	9.76%
Enforcement	2.90%	5.42%	34.72%	0.95%	0.00%
Remediation	29.15%	16.20%	0.00%	3.11%	4.88%
Permitting & Compliance	34.30%	32.34%	19.18%	48.76%	75.61%

*Includes non-budgeted proprietary funds

General fund as a percentage of a division's entire budget is highest in the Enforcement Division (35 percent), nearly twice as much on a percentage basis as any other program. Although general fund may be a more stable revenue source than state special revenue, it is more likely to be reduced in times of shortfalls and must compete statewide with other general fund programs. This emphasis on general fund seems high based on funding prior to reorganization. A majority (51 percent) of the general fund in the 1997 biennium (prior to internal reorganization) was not used for enforcement functions - the Energy and Central Services divisions in the old DNRC. With the exception of two lawyer positions, these divisions provided little support for

enforcement activities.

The department appears to be placing a higher priority on permitting and compliance functions and a lower priority on enforcement. The legislature may want to examine the role of the Enforcement Division given the following legislative performance audits.

1) Part of the June 1990 performance audit of the junk vehicle program found enforcement activities in the program showed little improvement from the 1983 audit. It was stated that the department needed to increase staff enforcement activity and utilize statutory enforcement provisions, rather than using "passive" enforcement procedures. A follow-up audit in June 1993 expressed the concern that there still was inadequate enforcement of statutory requirements and the need existed for formal, documented policies and procedures.

2) The September 1994 performance audit of the water quality and public water supply acts focused on the enforcement activities of the Water Quality Division. The audit found that resolution of violations do not always occur in a reasonable amount of time. It concludes: 1) the division was not consistently enforcing the provision of the statutes and outlined specific steps to improve the enforcement function; and 2) the division was not meeting the intent of the policy statement that requires a comprehensive program for the prevention, abatement and control of water pollution. The audit recommended steps be taken to ensure the water quality act is consistently enforced at all hard rock mines.

3) The November 1994 performance audit of the Air Quality Division, although complimentary in some areas, recommended an effective workload balance between legal and enforcement/compliance staff. It was also recommended that rules be developed for administrative penalty orders procedures established to increase use of enforcement alternatives.

4) Part of the December 1994 audit of hard rock mining regulation found that the lack of a comprehensive enforcement system prevented the determination of the reasonableness of the penalty determination process. However, instances of reduction in penalties with little or no documentation were identified.

5) A follow-up to the November 1994 performance audit of the Air Quality Division was conducted in August 1996. The new DEQ was asked to report on its progress in implementing the recommendations from the November 1994 audit that had not yet been implemented. It was found that some of the recommendations previously implemented were no longer in effect to department reorganization and staff turnover.

6) A performance audit follow-up to the September 1994 audit of the water quality and public water supply acts was conducted in September 1996. It was found that although improvement had been made, the department reorganization was impacting the overall efficiency and effectiveness of staff activities. The audit concluded that enforcement of the two acts should improve because the foundation has been put in place to strengthen the process in the future.

Budgeting Implications

The internal reorganization has an impact on budgeting. Because most former programs did not record expenditures based on the current structure, the base in these new program is not valid for comparison purposes. The base represents expenditures of resources in fiscal 1996 that the department chose to allocate to the respective new programs. It does not represent the amounts budgeted in fiscal 1996 by the legislature for these programs because the programs are entirely new. The legislature has never appropriated money based on this structure. Because of this, present law adjustments take on a different meaning. For example, no legislature has ever set a budget specifically for "Enforcement". A present law adjustment becomes a change from the amount of fiscal 1996 expenditures the department chose to allocate to a program, not a change in the amount the legislature budgeted. In essence, there is no meaningful method of comparison at the program level because the programs did not exist before. The only meaningful comparison is for the agency as a whole, as shown in the "Biennium Budget Comparison" table above. This table shows base expenditures for the department compared to the executive request. But the precise reasons for these differences cannot be identified at the new program levels. The base expenditures and the executive request for the new programs represents the executive's allocation of resources to the programs, not the legislature's.

The new structure complicates funding. Although activities for the new department now will be done along functional lines, state and federal funding are still along categorical lines. For example: air quality fees and EPA air quality grants are used to partially fund three programs -- Enforcement, Permitting and Compliance, and Planning, Prevention, and Assistance. Under the former structure, the money was used to partially fund one program, the Air Quality program. For example, the Permitting and Compliance Division is funded from 21 separate funding sources and is divided into 17 categorically based pieces. Duties are still based along categorical lines. Table 4 shows major acts for which DEQ is responsible. For example, the legislature has established duties through the Montana Metal Mine Reclamation Act which include permitting, enforcement, and compliance functions. The legislature has not assigned duties in a separate Permitting Act or Enforcement Act.

Table 4
Department of Environmental Quality
Major Statutory Acts

Act	MCA Cite
Water Treatment Plant Operators	37-42-101 through 37-42-322
Occupational Health Act of Montana	50-70-101 through 50-70-118
Clean Air Act of Montana (includes asbestos)	75-2-101 through 75-2-514
Nuclear Regulation (includes radon)	75-3-101 through 75-3-607
Water Quality	75-5-101 through 75-5-641
Wastewater Treatment Revolving Fund	75-5-1101 through 75-5-1122
Public Water Supply	75-6-101 through 75-6-121
Safe Drinking Water Treatment Revolving Fund	75-6-201 through 75-6-225
Montana Solid Waste Management Act	75-10-201 through 75-10-233
Montana Hazardous Waste & Underground Storage Tank Act	75-10-401 through 75-10-451
Motor Vehicle Recycling and Disposal Act	75-10-501 through 75-10-542
State Participation in Federal Superfund (CERCLA)	75-10-601 through 75-10-628
Comprehensive Environmental Cleanup & Responsibility Act (CECRA)	75-10-701 through 75-10-738
Montana Intergrated Waste Management Act	75-10-801 through 75-10-807
Montana Megalandfill Siting Act	75-10-901 through 75-10-954
Infectious Waste Management Act	75-10-1001 through 75-10-1006
Montana Underground Storage Tank Installer Licensing & Permitting Act	75-11-201 through 75-11-232
Petroleum Tank Cleanup	75-11-301 through 75-11-321
Montana Major Facility Siting Act	75-20-101 through 75-20-1205
Sanitation in Subdivisions	76-4-101 through 76-4-135
Montana Agricultural Chemical Ground Water Protection Act	80-15-101 through 80-15-414
The Strip and Underground Mine Siting Act	82-4-101 through 82-4-142
The Montana Strip and Underground Mine Reclamation Act	82-4-201 through 82-4-254
Montana Metal Mine Reclamation Act	82-4-301 through 82-4-372
The Opencut Mining Act	82-4-401 through 82-4-446
Renewable Energy Sources Research and Development	90-4-101 through 90-4-112
State Building Energy Conservation Program	90-4-601 through 90-4-614
State Energy Policy-Goals and Development Prcess	90-4-1001 through 90-4-614

Opportunity

The internal reorganization gives the legislature a unique opportunity to allocate all available resources among the new programs. The 55th Legislature can express its priorities along the new functionality lines through the budgeting process by establishing a legislative base of expenditures in the 1999 biennium for subsequent legislatures. For example: the legislature could (within funding limitations) express a policy objective of ensuring environmental protection through prevention by putting more emphasis on planning, prevention and assistance and less on enforcement and allocate funding accordingly. Based on the traditional budgeting method, the legislature approves changes to the base. Within the new structure of DEQ, the legislature can prioritize the entire budgets among programs. It can even establish its own budgeting structure if desired.

Legislative Policy-Program Structure

Does the legislature want to express its environmental policy by prioritizing available funding along the new program structure of the new agency established by the executive? If so, the legislature could use the new

program bases and budget requests of the agency as starting points.

Does the legislature want to express its environmental policy by prioritizing available funding along a different program structure of the new agency? If so, some options would be to structure budgeting based on: 1) categories such as air, water, hazardous wastes, etc., similar to how the legislature set the budgets in past sessions; or 2) statutory duties, such as those listed in Table 4.

Legislative Policy-Base

Does the legislature want to prioritize available funding for increases starting from the base amounts as determined by the department? If so, the legislature would approve the base expenditures and determine changes from that amount. This is the traditional method of budgeting.

Does the legislature want to prioritize available funding for and between entire programs from a base of $0? If so, the legislature would ignore base expenditure and allocate all available funding to the programs in the amounts it chooses.

Budgeting Approach

Depending on the policies selected above, the approach may vary. The following are offered as suggestions:

1) Ask the department to provide the legislature with the policies, priorities, and available funding it used to set the executive present law budget and new proposals. The legislature could accept, reject, or modify the department's priorities to fit its own.

2) Set policies, priorities, and funding along other lines, such as the past budget structure or major duties shown in Table 4. The legislature could ask the department for: a) available funding by fund type (general fund, state special, federal) based on this or any other structure; b) federal funds that can be used interchangeably under the new EPA Performance Partnership Block Grant program (discussed below); and c) limitations on the funding, such as state match for federal funds. Legislative priorities could then be set and budgeted accordingly. The legislature could then allocate the available funds in the manner it chooses.

Performance Based Budgeting

This opportunity to build a total budget based on legislative priorities (together with the new EPA funding arrangement discussed below) may be a good time for the legislature to consider a form of performance based budget for the department. In addition to setting the budget and priorities, the legislature could establish specific goals expected to be met. Performance measures could also be established to verify attainment of each goal. Subsequent legislatures would then be able to make budget adjustments based on past performance of each program.

Legislative Options

1) Ask the agency to develop specific program goals and associated performance measures based on its budget and report back to the subcommittee. The subcommittee would incorporate the

information in its budget discussions, development, and budgeting.

2) Set legislative goals. Ask the agency to develop specific performance measures for those goals and report back to the subcommittee.

3) Develop the program budgets based on the traditional method.

EPA Block Grants

Recent changes by EPA in how it will allow states to spend certain grant funds has the potential for substantial impacts on the legislative appropriations process. The following discusses these changes and their implications for the legislature.

Performance Partnership Grants (PPG) and Agreements (PPA)

The federal 1996 Omnibus Consolidated Rescissions and Appropriations Act (PL 104-134) passed on April 26, 1996, allows states the option to combine funds from two or more categorical grants into a single block grant. Although the state has received guidelines, rules may be finalized in February 1997. Under this concept, agencies can use the money for any eligible environmental program based on negotiated priorities. Completely voluntary, these grants, termed Performance Partnership Grants (PPG), are designed to:

1) give states the funding flexibility to address priorities across categorical lines (air, water, etc.);

2) develop environmental goals that are linked with program outcomes;

3) reduce categorical grant administrative costs; and

4) strengthen the partnership between states and the EPA.

EPA's allocation of grant money to the states will be the same whether or not they are awarded categorically or as PPGs. EPA expects the states to spend the same amount of money for environmental programs under PPGs as under categorical grants, although the states will have the flexibility to spend more or less in certain categories. The amount of the state's match will remain the same, and core requirements of specific programs must still be met. State eligibility is subject to the authority of the governor or state legislature, as appropriate. DEQ will develop a Performance Partnership Agreement (PPA) with EPA for federal fiscal year 1997 to receive a PPG. The agreement will combine EPA and the state's priorities, goals, and objectives, including regulatory and statutory goals. Agreements include multi-media (combination of air, water, etc.) priorities. The agreement is a move toward a more outcome and results-based measure of performance and less on activity and process measures. Performance measures are to be quantifiable, measurable, and time-specific. Additional accountability could add to the costs of the programs.

Implications

The department states that it believes authority to enter into PPGs is not needed from the Governor or the legislature. However, the legislature may want to become actively involved because of the potential power the agency will have to substantially change program emphasis. Under the categorical grants of the past, the

federal government set the emphasis by stipulating the single purpose for which the money could be used and the amount of the state's match or maintenance of effort. The legislature could only appropriate the federal and state money for this purpose. Under PPG, the federal government is no longer restricting the expenditure of the federal money based on its priorities. It is allowing the department and the legislature a greater role in determining the spending priorities, and hence program emphasis. The decisions on the amount and use of the money is the function of the legislature and the appropriations process. Without guidance otherwise, the department may negotiate PPAs based on its policies, goals, objectives and performance measures, not the legislature's. It will then be the department that is deciding on where and how much money will be spent after appropriations are set by the legislature. Consequently, the policy inherent in the appropriation may not be maintained by the department. The issue is whether the legislature wants to entrust this authority to the executive branch, or play an active role in determining program priorities and funding levels.

Eligible Federal Money

Eligible PPG grants and their amounts that DEQ expects to receive in the 1999 biennium are shown in Table 5.

Legislative Policies

Does the legislature want to direct the department to enter into a PPA with the EPA for funds to be spent in the 1999 biennium?

1) If so, does the legislature want to provide policy direction by establishing program priorities, goals, performance measures, and funding limits?

2) If so, does the legislature want to delegate the establishment of programs priorities, goals, performance measures, and funding limits?

3) If not, the legislature should express this intent in HB 2 language.

Legislative Options

1) Request that the department provide goals, objectives, priorities, and performance measures for grants to be included in PPGs;

2) Accept, reject, or change the goals, objectives, priorities, and performance measures to meet those of the legislature; and

3) Formulate guidelines for the department to follow in re-allocating money among categories.

Table 5
Department of Environmental Quality
Federal Performance Partnership Grants
Eligible Federal Funds

Categorical Grant	Fiscal 1998	Fiscal 1999
Air pollution control	$950,000	$875,000
Water pollution control (surface and groundwater)	633,443	679,459
Nonpoint source management	1,427,700	1,427,700
Water quality cooperative agreements (wetlands)	435,000	435,000
Public water system supervision	1,076,400	1,076,400
Hazardous waste management	348,000	348,000
Underground storage tanks	162,500	162,500
Radon assessment and mitigation	87,500	96,700
Pollution prevention incentives for states	0	0
Total	$5,120,543	$5,100,759

5301 10
Department of Environmental Quality — **Central Management Program**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Personal Services	2,150	3,100	0	5,250	3,100	0	5,250	10,500
Operating Expenses	12,846	5,090	100,000	117,936	5,090	200,000	217,936	335,872
Equipment	0	0	0	0	0	0	0	0
Total Costs	$14,996	$8,190	$100,000	$123,186	$8,190	$200,000	$223,186	$346,372
General Fund	14,996	8,190	0	23,186	8,190	0	23,186	46,372
State/Other Special	0	0	100,000	100,000	0	200,000	200,000	300,000
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$14,996	$8,190	$100,000	$123,186	$8,190	$200,000	$223,186	$346,372

Program Description

The central management function of the Department of Environmental Quality consists of the Director's Office and the Centralized Services Division. The Director's Office includes the director's staff, a centralized Legal Services Unit, and a centralized Personnel Office. The Centralized Services Division, which exists as an organizational staff division attached to the director's office, represents a centralized extension of the director's responsibility and ability to provide budgeting, accounting, procurement, contract management, and information services support to the line divisions of this agency.

The Director's Office is the organizational component of the agency that is responsible and accountable for the effective administration, management, planning, and evaluation of total agency performance in carrying out department mission and statutory responsibilities. The director oversees and ensures effective development of appropriate policy and procedures throughout all organizational units of the agency and ensures, through effective leadership and supervision, that the agency organization structure supports optimum efficiency, consistency, and capability for planning, consultation, and decision making relative to the mission of the agency. In addition, the office provides for personal and legal support services to the program and fiscal support divisions of the agency, primary liaison services with federal and state agencies, and other intergovernmental liaison requirements, and consultation and primary liaison activities for public information requirements.

The Centralized Services Division is responsible for providing services to the department in the following areas: central budgeting, accounting, fiscal reporting, internal auditing, procurement including contracts for services and the purchasing of supplies and equipment, and information technology services. The division is responsible for responding to and working with other state agencies, the Governor's office, the Legislative Branch, federal agencies, legislative groups, and the public with activities relative to the fiscal management of the department. There are three bureaus in the division, Support Services, Information Services, and the Contracts and Procurement Bureau.

Funding

LFD Comment **- The primarily functions of this division are funded with proprietary funds (non-budgeted) and are not budgeted in HB 2. A further discussion of this program and proposed funding is included in the "Proprietary Rate Setting and State Fund" section of this report. The remaining HB 2 present law funding is general fund for expenses of the Board of Environmental Review.**

Executive Present Law

5301 10 Department of Environmental Quality Central Management Program		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	3,100	3,100
02	Inflation/Deflation	0	0
03	Fixed Costs	(787)	(787)
	Total Statewide Adjustments	$2,313	$2,313
Significant Present Law Adjustments			
04 91001	BOER Adj.	5,877	5,877
	Total Significant PL Adjustments	$5,877	$5,877
Other Base Adjustments		$0	$0
	Grand Total Present Law Adjustments	$8,190	$8,190

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issue - The executive does not provide any justification for the adjustments. The personal services increase is for additional per diem for the Board of Environmental Review, and is not considered a standard adjustment under the definition of a statewide issue. The other increases are for additional: 1) travel for the board - $4,442 each fiscal year; 2) legal services - $932 each fiscal year; and 3) indirect costs paid to Central Management Division - $503 each fiscal year.

5301 10 Department of Environmental Quality Executive Budget New Proposals	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Dedicated Penalty Account			100,000	100,000			200,000	200,000
Total For New Proposals			$100,000	$100,000			$200,000	$200,000

Central Management Program

Executive New Proposals

1) Dedicated Penalty Account - The Executive Budget recommends that the first $100,000 in fiscal 1998 and $200,000 in fiscal 1999 up to $300,000 for the 1999 biennium which is collected from environmental fines be placed in a state special revenue account, rather than the general fund. Anything beyond the $300,000 would be forwarded to the general fund. The funds would be used for a variety of environmental activities, remediation of environmental problems when the responsible party is either unknown or recalcitrant, pollution prevention activities, education, and training. An example of what would have been covered recently is the Chicago Mining Company's site in Pony, Montana. No additional FTE are required.

LFD Issue - The department is introducing legislation to allow it to receive a portion of fines collected under environmental statutes. This revenue is now deposited in the general fund. Such legislation is contrary to SB 378 (1993 session) which provides for the review of state special revenue to see if it should be de-earmarked to the general fund. Statute (17-1-507, MCA) recognizes that revenues of a general nature are good candidates for de-earmarking. Fines are defined as a general revenue source (17-1-502, MCA). Consequently, as the result of this review, SB 83 (sponsored by the Legislative Finance Committee in the 1995 session) de-

earmarked water quality fines and civil penalties to the general fund. This proposal would again earmark a portion of these and other fines and would reduce general fund by up to $300,000 in the 1999 biennium. If the executive requires additional funding, general fund could be requested instead of fine revenue, since diverting fine revenue impacts the general fund. Alleviating the possible public perception that the department pursues fines as a means to increase the department's revenue was a reason discussed in the process of de-earmarking of water quality fines and civil penalties. Therefore, if approved, the legislature should designate the specific purpose for which it wants the money spent and move the new proposal to the applicable division.

Legislative Options

1) Approve the new proposal. Designate the appropriations for a specific purpose within one of the other divisions.

  a) Insert language in HB 2 making the appropriations contingent on passage and approval of the department's proposed legislation;

  b) Change the funding to general fund

2) Do not approve the new proposal. Recommend against the passage of the proposed legislation.

Program Issue

Reorganization Changes

The executive has made the following changes in the makeup of the newly reorganized division since the legislature passed SB 234.

Board of Environmental Review

During reorganization of natural resource agencies during the 1995 session, funding for the board was provided to PHHS. In fiscal 1996, OBPP approved an agency transfer of $23,283 general fund from the PHHS to DEQ to provide funding for the board. Base expenditures of $14,997 and an increase of $8,192 each year are requested in the Executive Budget.

Public Health and Chemistry Laboratories

During reorganization of natural resource agencies during the 1995 session, funding for these laboratories was provided to DEQ. In fiscal 1996, the Governor signed an executive order (12-95) that transferred 28 FTE and $1,772, 215 state special revenue from the DEQ to PHHS to move the laboratories to PHHS. A discussion of the laboratories is include in that agency's narrative in Section B of this report.

5301 11 Department of Environmental Quality Program Proposed Budget	Petro Tank Release Comp Board							
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	24.34	0.34	0.00	24.68	0.34	0.00	24.68	24.68
Personal Services	741,410	94,434	0	835,844	92,939	0	834,349	1,670,193
Operating Expenses	450,566	57,105	62,937	570,608	58,218	76,351	585,135	1,155,743
Equipment	8,856	(3,656)	0	5,200	9,744	0	18,600	23,800
Debt Service	0	2,900	4,408	7,308	2,800	4,256	7,056	14,364
Total Costs	$1,200,832	$150,783	$67,345	$1,418,960	$163,701	$80,607	$1,445,140	$2,864,100
State/Other Special	1,200,832	150,783	67,345	1,418,960	163,701	80,607	1,445,140	2,864,100
Total Funds	$1,200,832	$150,783	$67,345	$1,418,960	$163,701	$80,607	$1,445,140	$2,864,100

Program Description

The Petroleum Tank Release Compensation Board is attached to the Department of Environmental Quality for administrative purposes only. The board is responsible for administering the petroleum tank release cleanup fund. This includes reimbursement to petroleum storage tank owners and operators for corrective action costs and compensation paid to third parties for bodily injury and property damage resulting from a release of petroleum from a petroleum storage tank. The board must affirmatively determine that the expenses for which reimbursement is claimed are eligible costs and were actually, necessarily, and reasonably incurred for the preparation or implementation of a corrective action plan approved by DEQ or for payments to a third party for bodily injury or property damage. The board is responsible for responding to and working with private individuals, corporations, other state agencies, the Governor's office, the legislature, federal agencies, other interested parties with activities relative to petroleum storage tanks. It has a staff of 10.00 FTE and funds 14.68 FTE within DEQ. The board reimburses annually in excess of $5 million to owners and operators for eligible costs. The reimbursements to owners and operators are a statutory appropriation.

The primary statutory mandate and authorizations are in Title 75, Chapter 11, part 3, MCA.

Funding

The Petroleum Tank Release Compensation Board is funded by a portion of the $0.0075 tax on gasoline, diesel, heating oil, and aviation fuel distributed within Montana.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table

5301 11 Department of Environmental Quality Petro Tank Release Comp Board			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	94,434	92,939
02		Inflation/Deflation	4,019	3,845
03		Fixed Costs	6,487	6,487
		Total Statewide Adjustments	$104,940	$103,271
Significant Present Law Adjustments				
04	91005	Operating Adjustments	33,082	34,104
05	91006	Operating Adjustments	19,238	19,503
06	91011	Equipment-Pl-Hb2	(3,656)	9,744
07	91012	Leased Vehicles Replacement	2,900	2,800
		Total Significant PL Adjustments	$51,564	$66,151
Other Base Adjustments			($5,721)	($5,721)
		Grand Total Present Law Adjustments	$150,783	$163,701

correspond to the narrative descriptions.

LFD Issue **- Included in the personal services under Statewide Present Law Adjustments are increases for overtime of $21,987 each fiscal year. Overtime is not considered a standard adjustment and should be examined separately.**

The executive request for operating increases in numbers 4 and 5 include: 1) a contract for data base software transfer - $6,990 each fiscal year; 2) secretarial services - $3,692 each fiscal year; 3) contracting for sampling, oversight of LUST remediation activities, technical consultation of remedial investigations, and engineering review - $13,510 each fiscal year; 4) rent in Helena, Billings, and Polson - $6,002 in fiscal 1998 and $6,406 in fiscal 1999; 5) legal costs - $9,207 each fiscal year; and 5) indirect charges to support Central Management - $12,919 in fiscal 1998 and $13,802 in fiscal 1999.

4) Operating Adjustments - Operating expenses are recommended at $33,082 in fiscal 1998 and $34,104 in fiscal 1999 for the DEQ staff who perform services in conjunction with the Petro Tank Release Compensation Board which is administratively attached to the department. Due primarily to changing requirements of the EPA during the 1999 biennium operating adjustments are for contracted services, contracts with non-profits, and rent increases for non-D of A buildings.

5) Operating Adjustments - Operating expenses are recommended to increase $19,238 in fiscal 1998 and $19,503 in fiscal 1999 for legal fees and court costs, secretarial services, and administrative costs.

6) Equipment Replacement - Equipment replacement is a net decrease of $3,656 for fiscal 1998 and a net increase of $9,744 for fiscal 1999. Equipment being replaced is a photo-ionization organic vapor detector, explosion meter, laser printer, and computer workstations.

7) Leased Vehicle Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $2,900 in fiscal 1998 and $2,800 in fiscal 1999 to continue the lease for one utility vehicle located in Billings. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contained a reduction of $1,700 each year of the biennium for gasoline and maintenance cost savings. Refer to the department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

LFD Comment **- In fiscal 1996, there were no expenditures for leased vehicles.**

5301 11
Department of Environmental Quality — **Petro Tank Release Comp Board**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Petro Board Staff			62,937	62,937			76,351	76,351
02 Leased Vehicles New			4,408	4,408			4,256	4,256
Total For New Proposals			$67,345	$67,345			$80,607	$80,607

Executive New Proposals

1) Petro Board Staff - The executive recommends $62,937 in fiscal 1998 and $76,351 in fiscal 1999 to meet the anticipated workload resulting from the EPA and state upgrade requirements for tanks that must be met by December 22, 1998. This will result in a large number of leaks being discovered which will generate a substantial increase in claims, eligibilities, and work plans being submitted. In addition, Information Services Division will no longer provide R:Base support as of January 31, 1998, and it will be necessary to convert the database. Existing staff will manage the increased workload in part through contracts and temporary hires.

LFD Issue **- The executive expects an increase in claims as the December 22, 1998 deadline to upgrade petroleum tanks approaches. If approved, the legislature may want to consider terminating the increased contracts after the December 22, 1998 deadline. Since this deadline occurs half-way through fiscal 1999, the legislature could also reduce the contract request for fiscal 1999 to $38,175.**

The legislature may also want to question the department on present law staff and budget reductions in fiscal 1999 that could be possible after the deadline. The legislature may want to provide direction to the agency on submitting the budget request for the 2001 biennium with these reductions.

In addition to this request, the board is requesting a present law increase of $13,510 each fiscal year in contracted services to assist in reviews. Also requested in present law increases is $6,990 to transfer the database to another format. Present law increases of $3,692 each fiscal year are also being requested for secretarial services. If these present law increases are approved, this new proposal could be reduced by $24,192 each fiscal year.

2) Leased Vehicles New - The executive recommends that one utility vehicle be obtained for this program through a State Motor Pool lease at a budgeted cost of $4,408 in fiscal 1998 and $4,256 in fiscal 1999. The vehicle will be based in Polson for the UST corrective action program. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles. This is the first new proposal.

LFD Issue **- The 1995 legislature provided $9,600 each year of the 1997 biennium to lease two vehicles. The executive present law request includes expenditures for state motor pool and personal vehicles. If this new proposal is approved, a portion of the executive request for $17,963 in fiscal 1998 and $17,222 in fiscal 1999 in motor pool and personal car expenses could be reduced.**

Program Issue

Audit Implications

The December 1996 audit of the Petroleum Tank Release Compensation Board (Board), the department, and the petroleum tank release cleanup fund (fund) raised a number of issues with possible budgetary implications.

Petro Fund Solvency vs. Staffing Levels

Projections indicate that the fund balance will decrease and, under the worst scenario, approach zero in early 1999 (half-way through fiscal 1999), depending on the rate of expenditures. Expenditures are expected

to increase as the December 22, 1998 compliance deadline for tank upgrades or closure approaches. Currently, only about 1/3 of the 7,000 registered tanks have been upgraded. The fund pays operating expenses and personal services costs for the Board's and DEQ's staff, and provides reimbursements to tank owners and third parties (reimbursements are statutorily appropriated). The Board's current policy is to pay all operating and personal services costs first. As funds available for claim reimbursements decline, reimbursements will be delayed. If only a limited number of reimbursement claims can be processed by staff, the question becomes: should staffing levels be reduced to provide more money for claim reimbursements or should the claim processing capabilities be maintained?

Legislative Policy - Should staffing be reduced as the amount of funding available to reimburse claims declines?

Future Need for the Petro Fund

Ideally, when tank owners are in compliance with leak detection and prevention requirements, the number and severity of tank releases are reduced or eliminated. Since commercial insurance is not yet available, part of the function of the fund is to provide financial assurance to meet EPA requirements. The need for the fund may become non-existent if commercial insurance becomes available. If claims have been paid and releases are few, staffing levels could be reduced.

Legislative Policy - Should staffing levels be reduced if the number of claims and releases decline and the insurance becomes available?

Board and Department Staff

The board hires its own staff to determine if a tank owner is eligible for reimbursement and to help it meet other statutory duties (funding for 10.0 FTE is being requested for the 1999 biennium). The department hires staff to review work plans to determine adequacy for remediating a petroleum release (funding for 14.68 FTE is being requested for the 1999 biennium). All staff are funded from the fund. The audit found that department staff work on remediation projects other than those eligible for reimbursement from the fund. Since the board has a statutory obligation to monitor fund expenditures, it should be aware of all activities funded from the fund. Before it can be determined if such expenditures are a proper use of the fund, the audit recommends that the board seek more detailed reports from the department on its activity.

5301 20
Department of Environmental Quality — **Planning, Prevention & Assistance Division**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	89.03	(3.00)	0.75	86.78	(3.00)	1.00	87.03	86.78
Personal Services	3,029,044	231,130	26,943	3,287,117	250,104	35,924	3,315,072	6,602,189
Operating Expenses	2,736,648	653,677	72,722	3,463,047	666,240	82,830	3,485,718	6,948,765
Equipment	32,990	103,127	48,000	184,117	44,023	0	77,013	261,130
Capital Projects	20,810	(20,810)	0	0	(20,810)	0	0	0
Grants	170,866	99,434	0	270,300	71,134	0	242,000	512,300
Transfers	0	0	0	0	0	0	0	0
Debt Service	25,285	(25,285)	0	0	(25,285)	0	0	0
Total Costs	$6,015,643	$1,041,273	$147,665	$7,204,581	$985,406	$118,754	$7,119,803	$14,324,384
General Fund	871,509	75,464	0	946,973	68,282	0	939,791	1,886,763
State/Other Special	1,471,532	205,363	48,000	1,724,895	241,865	0	1,713,397	3,438,293
Federal Special	3,672,602	760,446	99,665	4,532,713	675,259	118,754	4,466,615	8,999,328
Total Funds	$6,015,643	$1,041,273	$147,665	$7,204,581	$985,406	$118,754	$7,119,803	$14,324,384

Program Description

The Planning, Prevention and Assistance Division develops integrated water, air, waste management, and energy plans to protect Montana's environmental resources. The division monitors ambient environmental conditions and maintains records and data describing the quality of Montana's environment. The division encourages businesses, local governments and citizens to adopt new products, technologies, and practices that avoid environmental damage to public resources. It provides financial and technical assistance to overcome market and institutional barriers hindering the implementation of cleaner business, energy utilization and public works practices and the installation of better equipment. The division also assesses the environmental implications of major projects proposed to be developed within Montana.

The Planning, Prevention and Assistance Division (PPAD) is organized into five bureaus according to functions and activities as assigned: Technical and Financial Assistance Bureau, Pollution Prevention Bureau, Monitoring and Data Management Bureau, Resource Protection Planning Bureau, and Impacts Assessment Bureau.

Funding

This division is funded from general fund and numerous sources of state and federal special revenue. Because of the internal reorganization, revenue sources that had been specific to one division now fund multiple divisions. Table 6 shows these funding sources. General fund is used primarily for energy related activities and radon and radiological health functions. Smaller amounts support Major Facility Siting Act (MFSA), air quality, watershed management, equipment, and non-point source activities.

Table 6
Planning, Prevention & Assistance Division
Executive Funding, 1999 Biennium

Source	Fiscal 1998	Fiscal 1999
General Fund	$946,973	$939,791
State Special Revenue		
Major Facility Siting	$637,773	$644,694
Air Quality Operating & Permit Fees	514,198	491,946
Hazardous Waste CERCLA (RIT)	263,207	264,694
Alternative Energy	80,607	80,742
Bond Proceeds Administration	58,686	58,945
Reclamation & Development RIT	49,052	49,288
Solid Waste Management Fees	41,404	42,348
Permit Program	33,957	34,068
ARCO	19,296	19,400
Environmental Quality Protection (RIT)	12,435	12,601
Miscellaneous State Special Revenue	12,390	12,767
Burlington Northern	1,891	1,905
Subtotal	$1,724,896	$1,713,398
Federal Funds		
NPS Implementation Grant	$1,224,632	$1,226,547
Energy/FSD	1,046,976	1,020,267
EPA Air Quality	790,756	736,303
EPA Construction Grant	365,594	364,753
Waste Water Treatment	308,974	301,836
EPA Water Quality	308,725	309,352
EPA 106 Water Grant	276,137	276,206
Radon	77,488	96,577
FDA Mammography Inspections	71,498	72,369
Abandoned Mines Grant	32,721	32,800
Reclamation Grant	10,544	10,696
Superfund Core	9,599	9,671
EPA Groundwater	5,653	5,721
LUST Trust	3,418	3,517
Subtotal	$4,532,715	$4,466,615
Total	$7,204,584	$7,119,804

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment **- General fund for this program increases $75,464 in fiscal 1998 and $68,282 in fiscal 1999. Please see the LFD issue in the "Program Issues" section for a discussion of the general fund.**

5301 20 Department of Environmental Quality, Planning, Prevention & Assistance Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	231,130	250,104
02		Inflation/Deflation	1,405	4,093
03		Fixed Costs	99,206	104,333
		Total Statewide Adjustments	$331,741	$358,530
Significant Present Law Adjustments				
04	79199	Equip PL-PC-HB2	0	0
05	91019	Base Adjustments	509,249	520,092
06	91020	Equipment-PL-HB2	103,175	44,071
07	91021	Grant Adjustments	99,434	71,134
		Total Significant PL Adjustments	$711,858	$635,297
Other Base Adjustments			($2,326)	($8,421)
		Grand Total Present Law Adjustments	$1,041,273	$985,406

5) Base Adjustments - The executive recommends a net increase of $509,249 in fiscal 1998 and $520,092 in fiscal 1999 above the base. Consulting and professional services are used to contract for professional services that cannot be carried out by existing staff. These services include watershed planning, water and biological sampling and analysis, database administration, stream bank restoration, education and training and assistance by student interns, and Nonpoint Source/Wetlands Program contracts with water quality specialists for processing and interpretation of biological samples for evaluation of surface water quality statewide.

LFD Issue **- General fund pays $2,699 in fiscal 1998 and $4,213 in fiscal 1999 of this increase and RIT (hazardous waste CERCLA) pays $22,152 in fiscal 1998 and $27,149 in fiscal 1999. This adjustment includes increases for many diverse purposes. It also contains a "general" $500,000 decrease. The legislature may want to ask the executive to provide details on the amounts and justification for these changes.**

The 1995 legislature appropriated $664,755 each fiscal year to contract with nonprofit entities for water quality management activities, but specified that at least 60 percent of the money be contracted with conservation districts and that no more than 10 percent be spent on studies. The legislature may want to ask the department how this money was spent.

Contracts with nonprofits are used to administer the EPA Section 319 NPS/Wetlands grants. These grants are made to conservation districts and other organizations for the purposes of improving water quality and protecting aquatic resources. The funds are used to promote local watershed management, demonstrate best management practices (BMP), and provide information and education on the control of nonpoint source pollution and save habitat. Last session an additional $3 million was appropriated through a language appropriation in HB 2, which is not included in the base. Therefore, this present low adjustment is a decrease of $1 million each year from the total authorized last session.

LFD Issue **- Funding from the NPS/Wetlands grants is the division's largest single funding source. The executive is requesting increases of $208,929 in fiscal 1998 and $210,844 in fiscal 1999 from this source. The 1995 legislature approved a language appropriation for $3.0 million of federal NPS money to contract with conservation districts. Only $297,064 was spent in fiscal 1996. Language appropriations are not considered on-going costs and are never included in base expenditures for budgeting purposes.**

6) Equipment Replacement - Replacement equipment for fiscal 1998 is a net increase of $103,175 from the base and includes PCS, Marsh-McBirney digital flow meter and stainless steel rod, Hydrolab Inc. Water Quality Multimeter with stirrer, battery and carrying case, computer workstations, printers, Meteorological Monitoring Systems, Gas Calibration Systems, Air Monitoring Systems, Air Monitoring Shelter, and a Fax machine. Recommended fiscal 1999 replacement equipment decreases to $44,071 and includes the purchase of additional computers, workstations, Radiation Detection Equipment, and Indoor Air Sampling Equipment.

***LFD Comment* - General fund pays $32,872 in fiscal 1998 and $19,484 in fiscal 1999 of this increase and RIT (hazardous waste CERCLA) pays $4,932 in fiscal 1998. The remainder is primarily air operating permit fees and federal funds.**

7) Grant Adjustments - The executive recommends an increase of $99,434 in fiscal 1998 and $71,134 in fiscal 1999 for municipal wastewater assistance to counties, cities, towns, and local agencies and for a subgrant to National Center of Appropriate Technology (NCAT) under the State Energy Plan (SEP)/Rebuild America joint partnership. Subgrants for demonstration projects with research, field testing, and monitoring components are proposed for conservation and renewable energy.

***LFD Comment* - In fiscal 1996, $154,796 was spent on grants to cities and counties for municipal wastewater assistance and $16,070 was spent on subgrants to NCAT. All of the requested increase is for the subgrants and is funded with federal energy grants.**

5301 20
Department of Environmental Quality — **Planning, Prevention & Assistance Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Fine Particulate Monitoring			48,000	48,000				
02 Radon	0.75		77,488	77,488	1.00		96,577	96,577
03 Mitigating Impacts/Snowmobile								
04 Public Information			22,177	22,177			22,177	22,177
Total For New Proposals	0.75		$147,665	$147,665	1.00		$118,754	$118,754

Executive New Proposals

1) Fine Particulate Monitoring - The executive recommends adding $48,000 in fiscal 1998 of the biennium to be spent on fine particulate monitors. These monitors are required to comply with EPA air quality standards which will become effective in June, 1997. The monitors will be placed in Hamilton, Missoula, Thompson Falls, Libby, the Flathead Valley, Butte, Helena, and Billings. Funding is 100 percent federal special revenue.

***LFD Comment* - The executive proposes to buy four monitors at $12,000 each, capable of measuring particulate matter with a diameter of 2.5 micrometers or less. The department states (in its budget request) that it is expected that the EPA, under court order, will revise the particulate standards down from the current standard based on a diameter of 10 micrometers to 2.5 micrometers (PM-10 to PM-2.5). This change results in particulates between 10 and 2.5 micrometers no longer being regulated. The revision would change the focus for emission control from road dust and construction activity to combustion sources such as automobile exhaust, wood burning, industry, and slash burning. However, in recent communications from**

the department, EPA is now proposing to keep the PM-10 standard and add a new PM-2.5 standard for fine particulates. The department plans to use the new monitors in cities that had not met the PM-10 standard. Staff state that operating expenses for the PM-2.5 standard can be offset by reductions in the PM-10 program.

LFD Comment **- In 1988, EPA revised air quality standards from "total particulates" to the current PM-10 standard. Through fiscal 1996, the department had not completely revised its air pollution control program to make it consistent with this standard, but plans to do so in fiscal 1997. Under the new standard and the fee structure in place in fiscal 1996, less money would be collected because fewer particulates would be regulated. Beginning in fiscal 1997, the Board of Environmental Review increased fees to offset this reduction.**

LFD Issue **- Funding is not from federal funds but from state special revenue - air quality operating license fees. If this new proposal is not approved, the money is available to reduce present law general fund, RIT, or other funding sources in this or other divisions. If approved, funding a portion of the request with federal funds should be explored.**

2) Radon Testing - The Executive Budget recommends adding $77,488 in fiscal 1998 and $96,577 in fiscal 1999 and phasing in 1.00 FTE radon specialist, grade 16. The FTE would provide the public with education, training, and timely assistance in all matters pertaining to radon, in addition to monitoring the radon levels in radon health mines and public/private testing for radon. The proposal also provides $25,000 to five target counties for their radon outreach in fiscal 1998 and $50,000 to ten counties in fiscal 1999. Funding is based on a federal application being submitted early in fiscal 1998 for a state indoor radon grant

LFD Issue **- The executive is requesting additional federal funding for 1.0 FTE ($26,943 in fiscal 1998 and $35,924 in fiscal 1999), operating money ($11,900 in fiscal 1998 and $6,950 in fiscal 1999), and grants to counties ($30,000 in fiscal 1998 and $45,000 in fiscal 1999). In addition, $2,349 in fiscal 1998 and $2,407 in fiscal 1999 is requested to pay present law fixed costs (rent, ISD charges, and capitol ground maintenance) and $6,296 to pay indirect charges to fund Central Management.**

The federal money requires a 50 percent match that would be met by expenditures in the executive present law request ($25,000 of RIT money each fiscal year which is requested to contract with the Bureau of Mines for testing) and by non-state entities. In the 1993 session, the legislature passed the Montana Radon Control Act. It appropriated $50,000 of RIT money to administer and implement the program. The 1995 legislature approved an additional 0.5 FTE and appropriated $199,914 federal funds in the 1997 biennium as a one-time appropriation for the program (in fiscal 1996 only $31,530 was received). The 0.5 FTE has not yet been hired for the 1997 biennium. The legislature also appropriated $50,000 of RIT money in the 1997 biennium for radon mapping and water testing.

Legislative Options

1) Approve the new proposal. Through language in HB 2, restrict the new proposal appropriations and restrict the present law state match for the federal funds. Require that the state matching funds not be spent until at least an equal amount of federal revenue is received and spent.

2) Do not approve the new proposal. Review the necessity for the state match in the executive present law of $25,000 RIT money each fiscal year.

3) Public Information - The executive recommends adding $22,177 of federal special revenue each fiscal year to provide abandoned mine reclamation funding to the Planning, Prevention, and Assistance Division for community relations work. Funding will be utilized to provide information to the public on the various projects being completed by the bureau, as mandated by the National Contingency Plan.

Program Issue

Major Facility Siting Act (MFSA) Fees

General Fund Subsidy

Before constructing a major energy generating facility, a person must obtain a certificate of environmental compatibility and public need from the Board of Environmental Review. Under 75-20-215, MCA, the applicant must pay a filing fee based on the department's estimated cost of processing the application. The percentage fee varies from 0.05 percent to 4 percent, depending on the estimated cost of the facility. The money from the fee must be sufficient to enable the department to carry out its responsibilities. The money can only be used for compiling information needed to make a decision on the certificate and for carrying out its functions and responsibilities concerning major facility sitings. If the department spends less than collected, the applicant is entitled to a refund.

In this division, the executive is requesting $1,282,467 of the fee money in the 1999 biennium. A general fund subsidy of $72,187 is also requested. In the Permitting and Compliance Division, the executive is also requesting $493,539 of this fee revenue in the 1999 biennium. Based on executive revenue estimates of $3.14 million for the biennium, revenue is available to eliminate the general fund subsidy.

Legislative Options

1) Replace all the $72,187 general fund in the biennium with MFSA fees

2) Replace a portion of the $72,187 general fund in the biennium with MFSA fees

3) Approve the executive's general fund subsidy

Uncertain Revenue

The executive is requesting a total of $637,773 in fiscal 1998 and $644,694 in fiscal year 1999 of MFSA fees. The authority is for the department to complete its duties on MFSA applications or to pay for environmental impact statements required by MEPA. In fiscal 1996, $209,948 of revenue was received. Since the receipt and expenditures of these funds are uncertain, the legislature may want to restrict the appropriations.

5301 30

Department of Environmental Quality — **Enforcement Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	17.50	0.00	0.00	17.50	0.00	0.00	17.50	17.50
Personal Services	357,421	268,026	0	625,447	264,244	0	621,665	1,247,112
Operating Expenses	257,317	16,126	0	273,443	13,713	0	271,030	544,473
Equipment	9,293	4,877	0	14,170	(9,293)	0	0	14,170
Debt Service	0	7,680	8,190	15,870	6,240	7,800	14,040	29,910
Total Costs	$624,031	$296,709	$8,190	$928,930	$274,904	$7,800	$906,735	$1,835,665
General Fund	9,257	307,557	0	316,814	305,702	0	314,959	631,774
State/Other Special	218,542	50,180	3,482	272,204	36,424	3,317	258,283	530,487
Federal Special	396,232	(61,028)	4,708	339,911	(67,222)	4,483	333,493	673,404
Total Funds	$624,031	$296,709	$8,190	$928,930	$274,904	$7,800	$906,735	$1,835,665

Program Description

The Enforcement Division is the central control for activities which are designed to facilitate the thorough, effective, and timely enforcement of the statutes and regulations administered by DEQ. Department enforcement policies and procedures are developed by the division and submitted to the director for approval. The division must ensure that enforcement policies and procedures approved by the director are implemented in a consistent and predictable manner across all department work units. A citizen complaint clearinghouse and information tracking system is maintained by the division. Coordination of the legal and technical aspects of enforcement cases, whether the cases are administrative or judicial, is accomplished within the division. Enforcement division staff also monitor violators to determine compliance with department orders.

Funding

This division is funded from general fund and numerous sources of state and federal special revenue. Because of the internal reorganization, revenue sources that had been specific to one division now fund multiple divisions. Table 7 shows these funding sources. General fund is used primarily for air quality, energy, and water enforcement activities, with a smaller amount for waste management enforcement.

Table 7
Enforcement Division
Executive Funding 1999 Biennium

	Fiscal 1998	Fiscal 1999
General Fund	$316,814	$314,959
State Special Revenue		
Hazardous Waste CERCLA (RIT)	$87,354	$86,905
Underground Storage Tanks	58,014	57,648
NPDES Permit Program	42,333	42,300
Air Quality Operating & Permit Fees	38,854	26,022
Subdivision Plat Review	22,577	22,612
Public Drinking Water	10,303	10,248
Environmental Quality Protection (RIT)	6,868	6,801
Reclamation & Development (RIT)	5,902	5,747
Subtotal	$272,205	$258,283
Federal Funds		
EPA Safe Drinking Water	$121,036	$120,998
EPA Air Quality	60,482	55,484
NPS Implementation Grant	56,506	56,251
LUST Trust	37,612	37,330
Reclamation Grant	26,877	26,195
DEQ Letter of Credit	25,579	25,467
EPA 106 Water Grant	14,669	14,618
Underground Storage Tanks *	(2,851)	(2,851)
Subtotal	$339,910	$333,492
Total	$928,929	$906,734

*Although the legislature does not provide negative "appropriations", the executive includes this negative amount. Another funding source must be reduced by this amount to properly fund the division.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issue - The executive requests $307,557 more general fund in fiscal 1998 and $316,814 more in fiscal 1999 than the $9,257 spent in fiscal 1996. The executive proposes to not only fund all present law increases with general fund, but to use general fund to offset reductions in federal funding.

5301 30
Department of Environmental Quality
Enforcement Division

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	268,026	264,244
02		Inflation/Deflation	3,248	2,584
03		Fixed Costs	28,270	29,064
		Total Statewide Adjustments	$299,544	$295,892
Significant Present Law Adjustments				
04	91029	Zero Base Adjustments	(52,499)	(51,742)
05	91030	Equip -PL-HB2	4,877	(9,293)
06	91031	Vehicle Lease	7,680	6,240
		Total Significant PL Adjustments	($39,942)	($54,795)
Other Base Adjustments			$37,107	$33,807
		Grand Total Present Law Adjustments	$296,709	$274,904

The executive requests $50,181 more in state special revenue in fiscal 1998 and $36,424 more in fiscal 1999 than the $216,542 spent in fiscal 1996. This increase also offsets reductions in federal funding. The increase in state special is primarily the net of: 1) decreases in air quality operating and permit fees ($42,009 in fiscal 1998 and $54,676 in fiscal 1999); and 2) increases in subdivision and Montana pollutant discharge elimination system permit fees ($22,127 in fiscal 1998 and $22,094 in fiscal 1999), subdivision plat fees ($20,070 in fiscal 1998 and $20,105 in fiscal 1999) and RIT ($32,463 in fiscal 1998 and $31,792 in fiscal 1999).

Federal funds decrease $61,030 in fiscal 1998 and $67,223 in fiscal 1999.

4) Base Adjustments - The executive recommends a net decrease of $52,499 in fiscal 1998 and $51,742 in fiscal 1999. Contracted services and contracts with non-profits represent the majority of the requested decreases. Since the internal reorganization, it is anticipated that economies will be realized with a single Enforcement Division.

LFD Comment - The net decreases are the result of larger decreases combined with increases. The increases are: 1) rent - $10,905 in fiscal 1998 and $11,107 in fiscal 1999; and 2) indirect charges to fund Central Management - $38,617 in fiscal 1998 and $39,172 in fiscal 1999. The increases are funded with: 1) general fund - $40,177 in fiscal 1998 and $40,400 in fiscal 1999; 2) RIT - $1,790 in fiscal 1998 and $1,795 in fiscal 1999; and 3) other state and federal special revenue. Decreases are primarily funded with air quality operating permit fees and federal funds.

5) Equipment Replacement - Replacement equipment for fiscal 1998 is a net increase of $4,877 for computer workstations, lap top computer, and LaserJet printer. Equipment for fiscal 1999 is a net decrease of $9,293 from the base.

LFD Comment - The executive is requesting $9,293 each fiscal year as equipment base expenditures.

6) Leased Vehicles Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $7,680 in fiscal 1998 for one pickup to be located in Billings and $6,240 in fiscal 1999 to

continue the lease. The motor pool will purchase and manage the vehicle, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain a reduction of $2,200 in fiscal 1998 and in fiscal 1999 for gasoline and maintenance cost savings. Refer to the department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

LFD Issue **- This program had no expenditures for vehicle leases in fiscal 1996. The operating expense reduction mentioned above does not appear in the Vehicle Lease adjustment in the above table. If this increase is approved, operating costs could be decreased by $2,200 each fiscal year. The executive is requesting a new proposal to fund the leasing of two more vehicles at nearly the same cost as this lease for one vehicle.**

LFD Comment **- Other Base Adjustments - The executive does not provide justification for these increases totaling $37,107 in fiscal 1998 and $33,807 in fiscal 1999 or the funding for the increases.**

5301 30

Department of Environmental Quality — **Enforcement Division**

Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Vehicle Lease			8,190	8,190			7,800	7,800
Total For New Proposals			$8,190	$8,190			$7,800	$7,800

Executive New Proposals

1) Leased Vehicles New - The executive recommends that two sedans be obtained for this program through a State Motor Pool lease at a budgeted cost of $8,190 in fiscal 1998 and $7,800 in fiscal 1999. The vehicles will be based in Missoula and Billings for the Enforcement Division. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

LFD Comment **- The executive is proposing funding for the lease of another vehicle as an increase in present law.**

Program Issue

Air Quality Fees/General Fund

A large portion of the general fund increase in this program is for air quality and energy enforcement. By statute, air quality fees are to be set commensurate with costs (including enforcement of permit conditions), except for court costs or other costs associated with an enforcement action. No federal funds are budgeted for energy related enforcement activities.

The legislature may want to clarify with the department how funding for the proposed functional groups was determined.

The executive proposes funding switches in present law funding. General fund is increased by $144,558 in fiscal 1998 and $142,769 in fiscal 1999 over the $9,257 spent in fiscal 1996. Air quality fees are reduced $41,793 in fiscal 1998 and $54,012 in fiscal 1999. Federal air quality funds are reduced $61,282 in fiscal 1998 and $65,453 in fiscal 1999.

To the extent that department-wide present law increases or new proposals funded with air quality fees or with federal energy or air quality funds are not approved, these funds may be available to offset general fund increases in this program. Any base reductions the legislature makes in other programs funded with these funds may also be available to reduce general fund in this program.

Restrict General Fund

To ensure that general fund appropriations will be used to fund enforcement activities, the legislature may want to restrict the appropriations to prevent them from being used for other purposes.

5301 40

Department of Environmental Quality — **Remediation Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	52.66	(0.34)	0.38	52.70	(0.34)	0.50	52.82	52.70
Personal Services	1,760,764	228,100	13,586	2,002,450	210,656	17,877	1,989,297	3,991,747
Operating Expenses	7,161,396	(6,242)	3,747	7,158,901	(121,940)	3,747	7,043,203	14,202,104
Equipment	4,122	18,828	9,000	31,950	5,028	0	9,150	41,100
Grants	16,075	23,925	0	40,000	13,925	0	30,000	70,000
Debt Service	0	5,220	2,088	7,308	7,840	2,016	9,856	17,164
Total Costs	$8,942,357	$269,831	$28,421	$9,240,609	$115,509	$23,640	$9,081,506	$18,322,115
State/Other Special	1,752,390	245,714	11,088	2,009,192	63,007	2,016	1,817,413	3,826,605
Federal Special	7,189,967	24,117	17,333	7,231,417	52,502	21,624	7,264,093	14,495,510
Total Funds	$8,942,357	$269,831	$28,421	$9,240,609	$115,509	$23,640	$9,081,506	$18,322,115

Program Description

The Remediation Division is responsible for overseeing investigation and cleanup activities at state and federal Superfund sites; reclaiming abandoned mine lands; regulating, permitting, and licensing underground storage tanks (USTs); implementing corrective actions at sites with leaking USTs (LUSTs); and overseeing groundwater remediation at sites where agricultural and industrial chemical spills have caused groundwater contamination. The purpose of these activities is to protect human health and the environment; to prevent exposure of potential human and ecological receptors to hazardous or deleterious substances that have been released to soil, sediment, surface water, or groundwater; and to ensure compliance with applicable state and federal regulations.

Remediation activities include: 1) characterizing the nature and extent of contamination, identifying the affected media and environmental impacts, and the evaluating of potential remedial alternatives and associated costs; 2) selecting, designing, and implementing remedial actions; 3) involving local governments and the public in selecting and implementing cleanup actions, including the development of and coordination through technical and citizens advisory committees; 4) recovering costs from the parties responsible for the releases to the environment; and 5) providing the legal framework for responsible parties to conduct cleanups with oversight from the various programs within the division. For some sites, the division retains independent technical experts to support the decision-making process, and engineering consultants and construction contractors to accomplish investigation, remediation, and construction work. The division regulates USTs to prevent leaks by adopting and specifying design standards for USTs, reviewing installation plans, and issuing permits and licenses. The division works closely with the Petroleum Tank Release Compensation Board, which provides financial assistance for cleaning up petroleum-contaminated LUST sites.

Funding

Remediation Division funding sources include: 1) the U.S. Environmental Protection Agency (EPA) (including Superfund, LUST Trust, and groundwater grants); 2) a federal tax on Montana's coal production of which up to 50 percent is returned to the state for abandoned mine reclamation; 3) portions of the state resource indemnity trust interest; 4) parties responsible for the contamination; and 5) underground storage tank registration fees. Specific sources are shown in Table 8.

Table 8
Remediation Division
Executive Funding 1999 Biennium

	Fiscal 1998	Fiscal 1999
General Fund	$0	$0
State Special Revenue		
Environmental Quality Protection (RIT)	$846,001	$789,559
UST Leak Prevention Program	341,259	329,766
Burlington Northern	299,495	269,253
ARCO	187,331	100,042
Hazardous Waste CERCLA (RIT)	159,246	162,678
Circle K Settlement	79,263	78,896
UST Installer License and Permit	77,782	72,419
Agriculture Monitoring	14,815	14,801
Petro Storage Tank Cleanup	4,000	
Subtotal	$2,009,192	$1,817,414
Federal		
Abandoned Mines Reclamation	$4,559,396	$4,561,871
Superfund Muti-site	968,895	967,554
LUST Trust	727,651	761,911
Superfund - Silverbow	371,955	371,599
Superfund Core	223,237	222,769
Underground Storage Tanks	160,857	159,881
LUST Recovered Funds	148,567	147,917
EPA Groundwater	41,134	41,095
Dept. of Defense MOU	29,724	29,495
Subtotal	$7,231,416	$7,264,092
Total	$9,240,608	$9,081,506

Executive Present Law

5301 40 Department of Environmental Quality Remediation Division		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	228,100	210,656
02	Inflation/Deflation	8,256	9,410
03	Fixed Costs	20,579	21,272
	Total Statewide Adjustments	$256,935	$241,338
Significant Present Law Adjustments			
04 91040	Equip-PL-HB2	22,950	9,150
05 91041	Leased Vehicles Replacement	5,220	7,840
	Total Significant PL Adjustments	$28,170	$16,990
Other Base Adjustments		($15,274)	($142,819)
	Grand Total Present Law Adjustments	$269,831	$115,509

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Issue **- The relatively small amounts of present law adjustments is misleading without looking at changes in funding. All but $24,116 of the present law adjustments in fiscal 1998 are funded with state special revenue, primarily from Burlington Northern and Circle K funds, underground storage tank fees, and RIT. The executive proposes increases in RIT of $73,204 in fiscal 1998 and $20,266 in fiscal 1999. Funding from ARCO is reduced $81,556 in fiscal 1998 and $168,845 in fiscal 1999.**

Proposed federal funding varies substantially from fiscal 1996 expenditures. Although $841,474 in funding from U.S. Forest Service (USFS) restoration and Montana Pole Superfund funds was spent in fiscal 1996, nothing is expected in the 1999 biennium. These amounts are replaced with increases of: 1) multi-site and Silver-Bow superfund money; 2) LUST cost recoveries; and 3) abandoned mine reclamation grants.

4) Equipment Replacement - The executive recommends $22,950 in fiscal 1998 and $9,150 in fiscal 1999 to replace a Gas-Tech Combustible Gas Indicator, computer work station, lap top computer, Photoionization Organic Vapor Detector, Explosimeter for measuring high levels of explosive vapors, and a 5 drawer lateral file cabinet.

LFD Comment **- The executive funds these increases with the following: 1) RIT - $4,462 in fiscal 1998; 2) underground storage tank fees - $4,696 in fiscal 1998 and $3,353 in fiscal 1999; and 3) federal funds - $13,792 in fiscal 1998 and $5,797 in fiscal 1999.**

6) Leased Vehicles Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $5,220 in fiscal 1998 for one utility vehicle. There is $5,040 in fiscal 1999 to continue the lease and $2,800 for another utility vehicle. The cost decrease is due to projected mileage for each vehicle and the lower fiscal 1999 rate. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain a reduction of $1,700 in fiscal 1998 and $3,400 in fiscal 1999 for gasoline and maintenance cost savings. Refer to the department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

LFD Comment **- The executive funds this increase with: 1) RIT - $1,015 in fiscal 1998; 2) underground storage tank fees - $1,065 in fiscal 1998 and $2,873 in fiscal 1999; and 3) federal funds - $3,137 in fiscal 1998 and $4,967 in fiscal 1999.**

5301 40
Department of Environmental Quality **Remediation Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Abandoned Mine Computer/Gis	0.38		17,333	17,333	0.50		21,624	21,624
02	Lap Top Computer-Ust			4,000	4,000				
03	Gps Equipment-Ust			5,000	5,000				
04	Superfund Vehicle Lease-Dot			2,088	2,088			2,016	2,016
05	Ust Vehicle Leases-Dot								
	Total For New Proposals	0.38		$28,421	$28,421	0.50		$23,640	$23,640

Executive New Proposals

1) Abandoned Mine Computer/GIS FT - The Executive Budget adds 0.38 FTE and $17,333 in fiscal 1998 and 0.50 FTE and $21,624 in fiscal 1999 for a grade 15 information support specialist to perform GIS duties previously performed by consultants. Funding is entirely federal special revenue.

***LFD Issue* - The executive's present law request includes $3,936,980 in fiscal 1998 and $3,934,901 in fiscal 1999 for professional consultation. If approved, present law contracts could be reduced by the amounts of this new proposal.**

2) Lap Top Computer-UST - The executive recommends adding $4,000 in special state revenue to purchase a lap top computer. The computer would allow program staff to collect data and create reports in the field to provide timely database entry and increase staff field productivity.

***LFD Comment* - The state special revenue is from the gasoline license tax for the petroleum storage tank program.**

3) GPS Equipment-UST - The executive recommends adding $5,000 for Global Positioning System (GPS) equipment to locate exact latitude and longitude coordinates for the 6,900+ underground storage tanks and 2,500 leak sites across the state. This information would be provided to federal and state agencies, consultants, and the public, and would decrease response time when leaks are detected. The system will be funded by tank registration fees.

4) Leased Vehicle New - For vehicles to be leased from the State Motor Pool, rather than direct purchase by the agency, there is $2,088 in fiscal 1998 for one utility vehicle and $2,016 in fiscal 1999 to continue the first year lease for underground storage tank inspections. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. Refer to the department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

***LFD Issue* - Funding for this proposal is from RIT funds. The executive requests funding for other leased vehicles for this program as a present law adjustment. In addition to this new proposal, the executive present law request includes $11,501 in fiscal 1998 and $10,937 in personal car and motor pool expenditures. If approved, present law should be reduced by the amounts of this new proposal.**

5301 50

Department of Environmental Quality — **Permitting & Compliance Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	140.52	(0.07)	5.07	145.52	(0.07)	7.75	148.20	145.52
Personal Services	4,839,052	507,172	162,270	5,508,494	487,925	243,187	5,570,164	11,078,658
Operating Expenses	3,026,412	1,666,764	183,900	4,877,076	755,342	199,165	3,980,919	8,857,995
Equipment	48,077	82,597	18,565	149,239	11,917	9,790	69,784	219,023
Grants	988,635	60,214	0	1,048,849	60,214	0	1,048,849	2,097,698
Transfers	20,000	0	0	20,000	0	0	20,000	40,000
Debt Service	0	7,700	0	7,700	17,500	0	17,500	25,200
Total Costs	$8,922,176	$2,324,447	$364,735	$11,611,358	$1,332,898	$452,142	$10,707,216	$22,318,574
General Fund	663,552	118,893	43,102	825,547	112,549	49,872	825,973	1,651,520
State/Other Special	6,010,784	2,007,574	255,787	8,274,144	1,061,482	277,899	7,350,166	15,624,310
Federal Special	2,247,840	197,980	65,847	2,511,667	158,867	124,371	2,531,077	5,042,744
Total Funds	$8,922,176	$2,324,447	$364,735	$11,611,358	$1,332,898	$452,142	$10,707,216	$22,318,574

Program Description

The Permitting and Compliance Division administers all the DEQ permitting and compliance activities that relate to the following state and federal environmental statutes: Clean Air Act, Water Quality Act, Public Water Supply Act, Clean Water Supply Act, Safe Drinking Water Act, Sanitation in Subdivisions Act, Motor Vehicle Recycling and Disposal Act, Metal Mine Reclamation Act, Metal Strip and Underground Mine Reclamation Act, Surface Mining Control and Reclamation Act, Open Cut Mining Act, Asbestos Control Act, Hazardous Waste and Underground storage Tank Act, Montana Solid Waste Management Act, and Major Facility Siting Act. The division is responsible for reviewing and assessing all environmental permit applications, determining the correct control measures and requirements needed to ensure compliance with the laws and rules and to prevent land, surface water and groundwater conditions which are detrimental to public health, welfare, safety, and the environment. The division prepares the appropriate environmental review documents to comply with the Montana Environmental Policy Act. In addition the division is responsible for conducting all inspections of facilities and report reviews to determine compliance with permit conditions and the laws and regulations. When violations are discovered, the division works with the facility and provides the assistance needed to bring the facility back into compliance as expeditiously as possible.

Funding

This division is funded from general fund and numerous sources of state and federal special revenue. Because of the internal reorganization, revenue sources that had been specific to one division now fund multiple divisions. Table 9 shows these funding sources. General fund is used primarily for activities concerning hard rock mining, major facility sitings, and solid waste management with lesser amounts for open cut mining activities and equipment purchases.

Table 9
Permitting & Compliance Division Executive Funding
1999 Biennium

	Fiscal 1998	Fiscal 1999
General Fund	$825,547	$825,973
State Special Revenue		
Air Quality Operating & Permit Fees	$1,451,385	$1,448,699
Junk Vehicle Disposal	1,084,249	1,084,311
Reclamation & Development (RIT)	985,821	977,137
Reclamation Bond Forfeitures	984,610	56,201
Subdivision Plat Review	753,122	775,915
Hazardous Waste CERCLA (RIT)	691,617	688,159
Public Drinking Water	663,014	662,211
NPDES Permit Program	662,711	662,130
Solid Waste Management Fee	461,686	462,436
Major Facility Siting	249,175	244,363
Asbestos Control	101,900	101,304
Reclamation Hardrock Mining	82,743	82,232
Board of Water Well Operators	68,112	71,067
Hazardous Waste Fees	34,000	34,000
Subtotal	$8,274,145	$7,350,165
Federal		
State Lands Federal Reclamation	$978,586	$959,963
EPA Safe Drinking Water	883,543	887,228
EPA Letter of Credit	381,753	377,783
EPA Groundwater	160,118	211,200
EPA 106 Water Grant	32,007	32,312
EPA Air Quality	75,661	62,591
Subtotal	$2,511,668	$2,531,077
Total	$11,611,360	$10,707,215

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5301 50 Department of Environmental Quality Permitting & Compliance Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	507,172	487,925
02		Inflation/Deflation	9,738	11,545
03		Fixed Costs	90,407	92,762
		Total Statewide Adjustments	$607,317	$592,232
Significant Present Law Adjustments				
04	79199	Equip-PL-PC-HB2	0	0
05	91004	8MFSA Base Adjustment	164,238	158,664
06	91039	Base Adjustments	1,288,670	357,782
07	91050	Equip-PL-HB2	90,298	29,418
08	91051	Grants To Counties Subdiv	60,214	60,214
		Total Significant PL Adjustments	$1,603,420	$606,078
Other Base Adjustments			$113,710	$134,588
		Grand Total Present Law Adjustments	$2,324,447	$1,332,898

5) Montana Facility Siting Act (MFSA) Base Adjustments - The executive recommends $164,238 in fiscal 1998 and $158,664 in fiscal 1999 for block authority to expend filing fees paid by applicants seeking Major Facility Siting Act (MFSA) certification of proposed energy facilities or applicants for state permits which trigger the Montana Environmental Quality Act (MEPA). Funds would be available to spend only up to the amount of filing fees actually paid by applicants. The block appropriation reflects the recommendations of the LFD to enable the Permitting and Compliance Division to respond quickly and efficiently to applicants seeking MFSA or MEPA certification of smaller linear facilities or site facilities analyzed through an environmental assessment process.

LFD Comment - The 1981 legislature began the practice of appropriating funds in anticipation of requests for EIS on major power generating facilities when it appropriated $2.0 million for the 1983 biennium. Nothing was spent in fiscal 1996. If this request is approved, the legislature may want to restrict the appropriations so the authority cannot be used for any other purpose. Permitting and compliance of MFSA facilities are subsidized with general fund. See the LFD issue in the "Program Issues" section.

6) Base Adjustments - The executive recommends $1,288,670 in fiscal 1998 and $357,782 in fiscal 1999 for increases in consulting and professional services, contracts with non-profits, and indirect costs. Of the $1,288,670 proposed in fiscal 1998 the executive recommends $927,854 be a biennial appropriation for bond forfeiture. The biennial appropriation is comprised of Coal and Uranium reclamation ($367,424 for Union Reserve and Coal Creek) and the Hard Rock Program ($235,000 for Seahawk, Inc.; $206,000 for Washington Gulch Mining; $29,430 for Highland Gold Properties; $40,000 for SMES; and $50,000 for Exploration).

LFD Comment - This adjustment includes net changes for many diverse purposes. The executive does not provide details on the amounts or justification for these changes. Requested increases, other than for bond forfeitures, are funded primarily by the following: 1) general fund - $38,918 in fiscal 1998 and $38,462 in fiscal 1999; 2) public drinking water fees - $91,109 in fiscal 1998 and $93,989 in fiscal 1999; 3) RIT (reclamation & development and hazardous waste CERCLA) - $105,414 in fiscal 1998 and $101,216 in fiscal 1999; and 4) federal - $157,733 in fiscal 1998 and $157,354 in fiscal 1999.

LFD Issue - Under the Montana Strip and Underground Mine Reclamation Act and the Montana Metal Mine Reclamation Act, permittees are required to post a performance bond. If the permittee does not comply with requirements stated in a department order, or if the permittee abandons a mining site, the bond may be

forfeited to the department. The department uses these funds for reclamation of the site. In the past, the department has stated that spending authority is necessary in case a large number of bonds were forfeited. Historically, this has not occurred. Table 10 shows the appropriations and expenditures from reclamation bonds during the last six fiscal years. The 1995 legislature reduced the executive biennial request from $500,000 to $100,000.

A total of $927,854 is being requested as a biennial appropriation to spend bond forfeitures. If the legislature approves this amount, it may want to restrict the appropriation so that the authority cannot be used for any other purpose.

Table 10
Department of Environmental Quality
Reclamation Bond Appropriations and Expenditures

Fiscal Year	Appropriated	Expenditures
General Appropriations Act		
1997 (through October)		$8,470
1996	$100,000 *	41,879
1995		88,235
1994	500,000 *	29,910
1993		39,720
1992	200,000 *	20,399
1991		50,863
1990	100,000 *	46,095
Budget Amendment		
1993		$140,453
1992	463,480 *	874

*Biennial appropriation

7) Replacement Equipment - The executive recommends an increase of $90,298 in fiscal 1998 and $29,418 in fiscal 1999 above the base for the replacement of PCS, PC workstations, printers, asbestos sampling equipment, and lap top computers. Also, because replacement vehicles are to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $11,600 in fiscal 1998 for two utility vehicles and $16,800 in fiscal 1999 for three utility vehicles. In addition, there is $11,200 in fiscal 1999 to continue the first year vehicles. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain reductions of $3,900 in fiscal 1998 and $10,500 in fiscal 1999 for gasoline and maintenance cost savings. Refer to the department of Transportation (MDT) State Motor Pool narrative for the statewide information on leased vehicles.

LFD Comment **- The executive funds this increase in part with: 1) general fund - $5,121 in fiscal 1998 and $2,192 in fiscal 1999; and 2) RIT (reclamation and development) - $14,802 in fiscal 1998 and $6,021 in fiscal 1999.**

LFD Issue **- 8) Grants to County Subdivisions - The executive did not provide a justification for this increase. The request is for additional grants to counties for the review of subdivisions. In fiscal 1996, $109,786 was spent.**

Other Base Adjustments - Other base adjustments are a combination of reorganization and increases in motor pool rates, laboratory testing, work study contracts, legal fees and court costs, data processing supplies and minor equipment, postage and mailing.

LFD Comment **- Reorganization costs should not continue into the 1999 biennium. Motor pool expenditures are inflated 27.4 percent in fiscal 1998 and 20.7 percent in fiscal 1999 and are included in present law adjustment number 2.**

5301 50

Department of Environmental Quality Executive Budget New Proposals	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Air Quality Compliance	0.75		48,266	48,266	1.00		50,414	50,414
02 Subdivision & Pws Technical St	3.00		195,424	195,424	4.00		207,128	207,128
03 Water Quality Tech	0.75	43,102		43,102	1.00	49,872		49,872
04 Hazardous Waste Management Fee			34,000	34,000			34,000	34,000
05 Shallow Injection Well Permits	0.38		35,161	35,161	1.50		98,609	98,609
06 Operator Certification Support	0.19		4,717	4,717	0.25		5,829	5,829
07 Solid Waste Equipment			4,065	4,065			6,290	6,290
08 Air Qual Vehicle Lease-Dot								
Total For New Proposals	5.07	$43,102	$321,633	$364,735	7.75	$49,872	$402,270	$452,142

Executive New Proposals

1) Air Quality Compliance - This proposal adds $48,266 for 0.75 FTE in fiscal 1998 and $50,414 for 1.00 FTE in fiscal 1999 for an air quality specialist in the Air Quality Compliance Section. The FTE would offer compliance assistance to facilities to help them identify areas of the regulations that apply to them, where they need to make changes at their business to come into compliance, how to stay in compliance with their permit conditions, and general pollution prevention opportunities. The position is fully supported by federal grant dollars.

LFD Issue **- The legislature has expanded this activity since fiscal 1994. The 1993 legislature approved an increase of 10.0 FTE in fiscal 1994 and 15.0 FTE in fiscal 1995. In fiscal 1994, the department experienced large vacancy savings because many of these additional positions were not filled. The 1995 legislature approved an additional 3.5 FTE and $207,834 in fiscal 1996 and 5.5 FTE and $306,923 in fiscal 1997 to perform air quality compliance and enforcement duties. The legislature also approved an additional 4.5 FTE and $252,362 in fiscal 1996 and 6.5 FTE and $366,846 in fiscal 1997 for air quality permitting. Air quality fee and permit revenues funded these two additions. The department states that many of these additional positions were not completely filled in fiscal 1996, resulting in $300,000 of vacancy savings. The legislature may want to ask the department: 1) the status of the FTE added by the legislature since 1993; 2) how the work expected by the legislature was done considering the large vacancy savings; and 3) what assurance the legislature has that, if approved, FTE in this new proposal will be hired and working in a timely manner.**

If this new proposal is not approved, the legislature could consider using the federal funds to reduce present law funding from state sources.

2) Subdivision and PWS Technical Staff - The executive recommends adding 1.00 FTE engineering specialist and 3.00 water quality specialists in the Subdivision Review and the Public Water Supply Program to accommodate a dramatically increased workload. Consultants cannot be found for this work and lack consistency due to a high turnover rate. The proposal would add $195,424 in fiscal 1998 and $207,128 in fiscal 1999. Funding would be provided by existing public water supply service connection fees and by subdivision review fees. No new legislation or fees would be necessary

LFD Issue **- Funding for the 4.0 new FTE requested by the executive is split between public water supply system fees and subdivision plat review fees. The legislature may want to ask for specific performance**

measures on which to judge the effectiveness of the FTE in addressing the problems.

Contractors are currently hired to review plats and subdivision applications, and to review plans in the public water supply program. The executive present law request already includes: 1) $59,000 in fiscal 1998 and $60,000 in fiscal 1999 for these subdivision consultants; and 2) $100,000 each fiscal year for contract assistance in the public water supply program. If this new proposal is approved, the present law requested amounts could be eliminated.

Statute requires the department to set fees commensurate with costs for reviewing plats and subdivisions (76-4-105, MCA). In fiscal 1996, $654,645 of fees were collected and there was a fiscal 1996 fund balance of $206,728. The legislature has set in statute a maximum water supply system fee of $2 for each service connection with a minimum total fee of $100 (75-6-108, MCA). The Board of Environmental Review may set the fee within these limits. Statute requires the board to set fees commensurate with costs associated with the department's review of public water system plans and specifications. In fiscal 1996, $557,555 of fees were collected and there was a fiscal 1996 fund balance of $342,034.

Because these proposals are for new, nonmandated services (the statutory definition of a new proposal), the existing fee structures (if set commensurate with existing costs) will not provide adequate funding. The legislature may want to ask the department when and by how much fees will need to be increased to fund these new proposals, and what its plans are to effect this increase. If existing fees are adequate to permanently fund these positions, then the fees were not set commensurate with costs in previous years.

3) Water Quality Tech - The Executive Budget adds 0.75 FTE engineering specialist in fiscal 1998 and 1.00 FTE in fiscal 1999 to implement the requirements of SB 331 which was passed in the last legislature. The FTE would develop industrial waste water system design standards and review industrial waste disposal and treatment systems. The $43,102 in fiscal 1998 and $49,872 in fiscal 1999 would be funded by the general fund.

LFD Issue - The executive justifies the need for this new proposal by stating the FTE and general fund are needed to implement SB 331 approved by the 1995 legislature. That legislation raised the allowable amount of certain pollutants in the water and allowed site-specific water quality standards. The 1995 legislature recognized that new legislation approved during the session, including SB 331, required additional funding. The legislature appropriated $125,000 state special revenue each fiscal year of the 1997 biennium for this purpose. As stated in the fiscal note to SB 331, revenue was to be derived from overhead costs or increased fees. The board did not increase fees to raise the needed revenue. The appropriation was used to provide increased spending in areas not contemplated by the legislature. The legislature may want to ask the department how SB 331 was implemented in the 1997 biennium without use of the appropriation.

The legislature may also want to ask the department why fees have not been increased to raise the money needed to implement SB 331, and why general fund is being requested. Although department staff state that there were no applicable permits on which to raise fees, statute requires the Board of Environmental Review to set water quality fees (75-5-516, MCA). The fees are to cover the board's and department's costs of reviewing and enforcing permits to discharge wastes into state waters, inspections, and preparing water quality rules or guidance documents. The legislature has set the maximum fee for: 1) reviewing permit applications at $5,000 per discharge point; and 2) volume discharges at $3,000 per million gallons per day. The board can charge a lower fee for these permits. The board is also to set all the fees based on the amounts appropriated by the legislature for these activities (less any general and federal funds). The executive is

asking the legislature to appropriate (in present law and new proposals) a total of $754,455 and $752,059 in water permit fees. In fiscal 1996, $741,894 was collected.

Legislative Options

1) Approve the new proposal. Eliminate the general fund and replace it with state special revenue from fees collected under 75-5-516, MCA. Direct the board to adjust the fees by the amount necessary to cover the costs as required in statute.

2) Do not approve the new proposal.

4) Hazardous Waste Management Fees - This proposal would allow the deposit of fees collected from hazardous waste generators and from the modification and renewal of hazardous waste management facility permits into a state special revenue account. The approximately $34,000 collected would then be used in the administration of the hazardous waste program.

LFD Issue **- The department is planning to request legislation to allow the deposit of certain hazardous waste fees to the hazardous waste fee account for use by the department. Statute directs other hazardous waste fees to be deposited to the account, although no revenue has been deposited since $50,000 was received in fiscal 1993. The account currently has a fund balance of $47,811. This fund balance is available for use on a temporary basis. If the legislation is passed as introduced, the department states (in its budget request) it intends to use the additional state special revenue to fund a position approved by the 1993 legislature. However, the executive present law request already funds this 1.0 FTE in the Enforcement Division for waste management enforcement activities. To fund the position, the executive requests $31,856 in fiscal 1998 and $32,150 in fiscal 1999 from general fund, RIT hazardous waste CERCLA, and underground storage tank permit fees. Although the 1993 legislature approved 2.0 FTE to conduct hazardous waste permitting and compliance activities (to implement HB 592), the 1995 legislature eliminated 1.0 FTE because no commercial facilities were in operation and no applications had been submitted.**

Legislative Options

1) Approve the new proposal

a) Insert language in HB 2 making approval contingent on passage and approval of the companion legislation.

b) Since the FTE is already funded, consider the new proposal a funding switch. Fund the new proposal at $31,856 state special revenue in fiscal 1998 and $32,150 in fiscal 1999 in the Enforcement Division. Include the following reductions in the new proposal: 1) general fund - $9,982 in fiscal 1998 and $10,024 in fiscal 1999; 2) hazardous waste CERCLA account - $12,115 in fiscal 1998 and $12,168 in fiscal 1999; and 3) UST leak prevention account - $9,759 in fiscal 1998 and $9,868 in fiscal 1999.

c) Approve as proposed.

2) Do not approve the new proposal

a) Use the fund balance of $47,811 in the hazardous waste fee account to fund present law in the <u>Enforcement Division</u>. Reduce other funding sources by $22,097 in fiscal 1998 and $22,192 in fiscal 1999.

b) If the 1.0 remaining FTE provided by the 1993 legislature is not providing the intended services of reviewing and analyzing hazardous waste management permits and ensuring compliance with hazardous waste laws, the legislature may want to consider eliminating the position.

5) <u>Shallow Injection Well Permits</u> - The executive recommends adding $35,161 in fiscal 1998 and $98,609 in fiscal 1999 to develop the underground injection control program and submit the program package to the EPA for its review and approval. The proposal would add a 0.38 FTE program supervisor, grade 15, in fiscal 1998 which will expand to 1.00 FTE in fiscal 1999. There also is a 0.50 FTE administrative assistant added in fiscal 1999. The expansion will be funded 50 percent state special revenue and 50 percent federal special revenue in fiscal 1998, and 25 percent state special revenue and 75 percent federal special revenue in fiscal 1999.

***<u>LFD Comment</u>* - This new proposal is not related to the oil and gas injection operations in DNRC.**

***<u>LFD Issue</u>* - The state special revenue is from water permit fees. The executive is requesting the funding to expand its existing authority to issue ground water pollution permits to include shallow injection wells of industrial wastes. The legislature may want to ask the department why the problem is not being addressed under existing authority of 75-5-401 & 402, MCA, which requires the Board of Environmental Review to adopt rules regarding industrial discharges into ground water (among others) and to issue permits. If the authority exists under current statute, why are such discharges not being permitted as required under statute? Statute also requires the board to set water quality fees (75-5-516, MCA), commensurate with the board's and department's costs, including reviewing and enforcing permits to discharge wastes into state waters, inspections, and preparing water quality rules. This includes permitting for ground water pollution. The legislature may want to ask the department why fees are not being set to cover the permitting and enforcement costs of ground water pollution permits. Since this proposal is an expansion of new nonmandated services (the statutory definition of a new proposal), the existing fee structure (if set commensurate with existing costs) will not provide adequate funding. The legislature may want to ask the department when and by how much fees need to be increased to fund this new proposal, and what its plans are to effect this increase.**

The department plans to submit its proposal to the EPA within the next two years and anticipates funding assistance. If approved, it may be up to two years before the appropriations are used. The legislature may want to restrict the appropriations so they can not be used for any other purpose.

Legislative Options

1) Approve the new proposal

a) Insert language in HB 2 making approval contingent on receipt of federal funding. Language could also be inserted in HB 2 allowing the department to switch federal authority to state special revenue if federal funds are not received.

b) Restrict the appropriations in HB 2 to only the stated purpose

c) Direct the board to adjust the fees by the amount necessary to cover the costs as required in statute.

2) Do not approve the new proposal

6) Operator Certification Support Staff - The department recommends adding 0.19 FTE support staff in fiscal 1998 and 0.25 FTE for the Operator Certification Program. This would cost $4,717 special state revenue in fiscal 1998 and $5,829 in fiscal 1999.

LFD Issue **- This new proposal is requesting additional administrative support for the Board of Water Well Contractors. Currently, the program is hiring temporary secretarial services to perform this duty. The executive present law request includes $28,084 each fiscal year for these services. If approved, the present law request can be reduced by the amounts approved for this new proposal.**

7) Solid Waste Equipment - The executive recommends adding $4,065 in fiscal 1998 and $6,290 in fiscal 1999 for various solid waste equipment including: a methane gas tester, a field test kit, a Global Positioning System Field Unit, and a T-L-C meter. This equipment is funded 100 percent by state special revenue.

LFD Comment **- This new proposal is funded with solid waste management fees.**

Executive Language Recommendation

The following language is recommended for inclusion in HB 2:

"Item X includes $927,854 which is a biennial appropriation that may be combined and spent in either year."

LFD Issue **- No language is necessary to designate an appropriation as biennial. If the legislature wants to designate this item as a biennial appropriation, it need only indicate such in the line item appropriation in HB 2.**

Program Issues

General Fund Subsidies

In two of the permitting and compliance functions of the division, general fund subsidizes fee revenue. The following analysis looks at these areas, reviews applicable statutes, and provides options where applicable to reduce general fund.

Major Facility Siting Act (MFSA) Fees

Before constructing a major energy generating facility, a person must obtain a certificate of environmental compatibility and public need from the Board of Environmental Review. Under 75-20-215, MCA, the applicant must pay a filing fee based on the department's estimated cost of processing the application. The percentage fee varies from 0.05 percent to 4 percent, depending on the estimated cost of the facility. The

money from the fee must be sufficient to enable the department to carry out its responsibilities. The money can only be used for compiling information needed to make a decision on the certificate and for carrying out its functions and responsibilities concerning major facility sitings. If the department spends less than collected, the applicant is entitled to a refund.

In this division, the executive requests $493,539 of this fee money in the 1999 biennium. Also requested is a general fund subsidy of $234,766. In the Planning, Preventing and Assistance Division, the executive also requests $1,282,467 of this fee revenue in the biennium. Based on executive revenue estimates of $3.14 million for the biennium, revenue is available to eliminate the general fund subsidy.

Legislative Option

1) Replace all the $234,766 general fund in the biennium with MFSA fees

2) Replace a portion of the $234,766 general fund in the biennium with MFSA fees

3) Approved the executive's general fund subsidy

Since the receipt and expenditures of these funds are uncertain, the appropriations could be restricted.

Legislative Options

1) Restrict the appropriations in HB 2

2) Do not restrict the appropriations

Solid Waste Management Fees

In 75-10-101, MCA, the department and the Board of Environmental Review are charged with implementing the policy of the state concerning solid waste management. That policy is to encourage the good management of solid waste, the conservation of natural resources through the promotion or development of solid waste systems for energy production purposes, and to provide a coordinated state solid waste and resource recovery plan. The department and the board are also charged with implementing the Montana Solid Waste Management Act.

Management and administration of these duties, along with solid or hazardous waste incineration licensing and permitting functions (75-2-215, MCA), are funded with solid waste management fees. Statute allows the department to establish and collect fees. The fees may include: 1) a license application fee that reflects the costs of reviewing a new or major change in a solid waste management system; 2) a license renewal fee that reflects the minimum amount of fixed costs for an inspection and license renewal; and 3) a volume-based fee on solid waste disposal.

In this division, the executive requests $924,222 of this fee money in the 1999 biennium. It is also requesting a general fund subsidy of $334,122. In the Planning, Preventing and Assistance Division, the executive also requests $83,752 of this revenue in the biennium. The legislature may want to direct the department to review the fees to make them commensurate with costs.

Legislative Option

1) Replace all the $334,122 general fund in the biennium with solid waste management fees

2) Replace a portion of the $334,122 general fund in the biennium with solid waste management fees

3) Approved the executive's general fund subsidy

Continued General Fund Backfill of RIT

General fund is used to fund present law increases of $118,893 in fiscal 1998 and $112,549 in fiscal 1999 from fiscal 1996 expenditures. At the request of the executive, the 1995 legislature added $123,165 general fund each year of the 1997 biennium to fund open cut and hard rock mining operations because of an over-appropriation of RIT by the executive. The executive continues this practice and requests $904,965 general fund for these activities in the 1999 biennium - a $94,679 increase over base funding of $810,286. These activities are also supported with RIT funds (reclamation and development). Because RIT funds are insufficient to fund all programs to the extent they were funded prior to general fund backfill in the 1997 biennium, the legislature could prioritize programs funded with RIT and general fund. It may want to remove general fund from certain programs and fund them entirely with RIT, while removing RIT from other programs and replacing it with general fund.

5603 00 Agency Proposed Budget Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Department of Livestock PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	126.71	(0.00)	3.75	130.46	(0.00)	4.00	130.71	130.46
Personal Services	4,097,218	101,948	96,011	4,295,177	109,915	101,204	4,308,337	8,603,514
Operating Expenses	1,601,707	230,195	13,372	1,845,274	96,913	13,662	1,712,282	3,557,556
Equipment	257,622	(12,970)	0	244,652	58,466	0	316,088	560,740
Capital Projects	16,376	(16,376)	0	0	(16,376)	0	0	0
Benefits and Claims	6,709	(6,709)	0	0	(6,709)	0	0	0
Debt Service	0	24,150	23,340	47,490	43,000	22,600	65,600	113,090
Total Costs	$5,979,632	$320,238	$132,723	$6,432,593	$285,209	$137,466	$6,402,307	$12,834,900
General Fund	409,513	68,510	58,421	536,444	74,691	58,151	542,355	1,078,799
State/Other Special	5,246,333	231,671	15,881	5,493,885	186,291	21,164	5,453,788	10,947,673
Federal Special	323,786	20,057	58,421	402,264	24,227	58,151	406,164	808,428
Total Funds	$5,979,632	$320,238	$132,723	$6,432,593	$285,209	$137,466	$6,402,307	$12,834,900

Mission Statement

To control and eradicate animal diseases, prevent the transmission of animal diseases to humans, and to protect the livestock industry from theft and predatory animals.

Agency Description

The Department of Livestock is responsible for controlling and eradicating animal diseases, preventing the transmission of animal diseases to humans, protecting the livestock industry from theft and predatory animals, and regulating the milk industry. The department, which is provided for in 2-15-3101, MCA, consists of the Board of Livestock and its appointed executive secretary; the Livestock Crimestopper's Commission; and the Beef Research and Marketing Committee. The department is organized into five divisions: Animal Health, Centralized Services, Brands-Enforcement, Diagnostic Laboratory, and Meat, Milk, and Egg Inspection. HB 280, passed by the 1995 legislature, transferred the Milk Control Bureau from the Department of Commerce to the Department of Livestock. The Board of Livestock, which is the statutory head of the Department of Livestock, consists of seven members appointed by the Governor and confirmed by the Senate to serve six-year terms.

Supplemental Appropriation

Meat Inspection Program

General fund of $55,973 and federal special revenue of $55,974 to provide the required 3.00 FTE inspectors and operating funds in fiscal 1997 for three new Montana slaughter and processing plants already operating and three additional pending plants nearly ready to open. These meat processing operations are located in Superior, Libby, Polson, Laurel, Butte, and Bozeman. The additional federal funds require the general fund match, which previous legislative sessions have determined to be a cost-effective economic investment for the state. Continuation of the requisite inspections is presented in the Executive Budget as a present law base workload adjustment and a new proposal.

LFD Comment **- Please refer to the LFD Comment following the Meat Inspection new proposal in the Executive New Proposal section of the Meat and Poultry Inspection Program.**

5603 00
Department of Livestock **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	126.71	3.75	130.46	126.71	4.00	130.71	126.71	130.46
Personal Services	4,199,166	96,011	4,295,177	4,207,133	101,204	4,308,337	8,389,643	8,603,514
Operating Expenses	1,831,902	13,372	1,845,274	1,698,620	13,662	1,712,282	3,183,749	3,557,556
Equipment	244,652	0	244,652	316,088	0	316,088	519,504	560,740
Capital Projects	0	0	0	0	0	0	32,752	0
Benefits and Claims	0	0	0	0	0	0	11,209	0
Debt Service	24,150	23,340	47,490	43,000	22,600	65,600	0	113,090
Total Costs	$6,299,870	$132,723	$6,432,593	$6,264,841	$137,466	$6,402,307	$12,136,857	$12,834,900
General Fund	478,023	58,421	536,444	484,204	58,151	542,355	906,605	1,078,799
State/Other Special	5,478,004	15,881	5,493,885	5,432,624	21,164	5,453,788	10,558,096	10,947,673
Federal Special	343,843	58,421	402,264	348,013	58,151	406,164	672,156	808,428
Total Funds	$6,299,870	$132,723	$6,432,593	$6,264,841	$137,466	$6,402,307	$12,136,857	$12,834,900

5603 01 Department of Livestock Program Proposed Budget				Centralized Services Program				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	11.00	0.00	0.00	11.00	0.00	0.00	11.00	11.00
Personal Services	450,492	(10,410)	0	440,082	(9,648)	0	440,844	880,926
Operating Expenses	262,334	93,264	0	355,598	66,590	0	328,924	684,522
Equipment	32,940	18,860	0	51,800	31,160	0	64,100	115,900
Debt Service	0	5,250	0	5,250	5,000	0	5,000	10,250
Total Costs	$745,766	$106,964	$0	$852,730	$93,102	$0	$838,868	$1,691,598
General Fund	54,373	17,804	0	72,177	20,203	0	74,576	146,753
State/Other Special	667,388	73,003	0	740,391	55,410	0	722,798	1,463,189
Federal Special	24,005	16,158	0	40,163	17,489	0	41,494	81,657
Total Funds	$745,766	$106,964	$0	$852,730	$93,102	$0	$838,868	$1,691,598

Program Description

The Centralized Services Program is responsible for the accounting, budgeting, payroll, personnel, legal services, purchasing, administrative, data processing, and general services functions of the department. The Crimestopper's Commission is administratively attached to the Board of Livestock through this division. Agency legal services are provided to the department by the staff attorney in this division. The division is responsible for the support services which enable the other agency programs to comply with state and federal mandates.

Funding

Historically, a percentage of general fund has funded a portion of this program. The Executive Budget continues this method with this program being funded for the 1999 biennium with 8.7 percent general fund, 4.8 percent federal special revenue, and 86.5 percent state special revenue. State special revenue is split between inspection and control, livestock per capita, and animal health accounts. The Meat and Poultry Inspection Program's accounting costs are financed with federal funds.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5603 01 Department of Livestock Centralized Services Program			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(10,410)	(9,648)
02		Inflation/Deflation	(940)	(1,206)
03		Fixed Costs	69,096	42,688
		Total Statewide Adjustments	$57,746	$31,834
Significant Present Law Adjustments				
04	91001	Data Processing Equipment	18,860	31,160
05	91002	Consult & Prof Services Adj	8,203	8,203
06	91003	Travel & Meetings Adj.	17,849	17,849
07	91008	Leased Vehicle	5,250	5,000
		Total Significant PL Adjustments	$50,162	$62,212
Other Base Adjustments			($944)	($944)
		Grand Total Present Law Adjustments	$106,964	$93,102

1) Personal Services - There is a decrease in personal services due to retirement of long-time employees.

LFD Comment **- Another reason for this decrease is a 3 percent vacancy savings of $13,314 in fiscal 1998 and $13,338 in fiscal 1999. The retirement/termination pay for fiscal 1996 was $22,721.**

LFD Issue **- In fiscal 1996, the department transferred 1.0 FTE from the Milk Control Bureau to this division to serve as a personnel officer. The transfer was made because the department determined that a reduced number of FTE was required in that bureau due to the passage of legislation decontrolling milk prices. The executive maintains this position in present law.**

3) Fixed Costs - The increase in this program is offset by unchanged-from-the-base and decreased requests in other programs as a result of an agency decision to manage and pay for most fixed costs in this program.

LFD Comment **- The executive is consolidating all fixed costs in this program in the 1999 biennium. These costs were allocated among the other programs in the 1997 biennium. Consequently, the other programs show deceases in fixed costs that do not represent an overall decrease in costs in the department. The primary increases in fixed costs are due to increased expenditures in insurance, network fees, and rent, which caused fixed costs to rise $60,446 in fiscal 1998 and $60,479 in 1999. Fixed cost are reduced in fiscal 1999 because audit expenses, a biennial fixed cost ($29,005), are applied to fiscal 1998. Total fixed costs for 1996 were $167,475.**

4) Data Processing Equipment - Equipment increases above the base of $28,079 are $18,860 in fiscal 1998 for 16 systems with token ring access for the department and replacement of ten personal computer monitors. The $31,160 increase in fiscal 1999 continues token ring access for 14 systems, replaces ten monitors, replaces two servers at $20,000, and the lab printers in Bozeman.

LFD Comment **- The funding of this present law adjustment for fiscal 1998 is $1,697 general fund, $8,110 state special revenue (from both the animal health and inspection control accounts), and $943 federal special revenue from the meat and poultry account. Animal health revenues are fee-based and received for laboratory testing, aerial hunting permits, animal health license fees, and license fees from meat depots and packing houses. Inspection and control revenue is from market and dealer fees, brand inspection fees, grants from FWP for predator control, and the sale of stray livestock and surplus property. Meat and poultry revenue is from federal assistance for costs recovery from meat and poultry inspection. In fiscal 1999 this present law adjustment is funded by $2,804 general fund, $13,399 for both the animal health and inspection control accounts, and $1,558 from the meat and poultry account.**

5) Consultant & Professional Services - The increase of $8, 203 each year is for an attorney with expertise in the bison disease control issue which has been an ongoing focus of work for the department, but is expected to include new federal litigation during the 1999 biennium.

LFD Issue **- The 1995 legislature provided contingency funds only for bison control. The executive is proposing to significantly expand bison control expenditures. For a further discussion, see the Executive Present Law section in the Disease Control Program.**

6) Travel & Meetings - The adjustment of $17,849 each year is in part a result of low expenditures in the base year when the executive officer position was vacant. Meetings attended by Department of Livestock personnel include the National Cattlemen's Beef Association, the International Livestock Identification Association, the American Sheep Industry

Association, and the Organization of Milk Compliance Agencies.

LFD Comment **- Each year of the biennium, $14,806 of the total $17,849 increase is budgeted for out-of- state travel. This present law adjustment is annually funded with $1,549 general fund, $4,400 from both inspection and control, $6,638 from livestock per capita fees, and $862 federal funds from meat and poultry inspection account. Refer to item 4 above for revenue sources, with the exception of the livestock per capita fees. This revenue is received as a property tax on livestock (as a percentage set by the Board of Livestock).**

7) Leased Vehicles Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $5,250 in fiscal 1998 for one sedan and $5,000 in fiscal 1999 for continuation of the first year lease. The vehicle will be stationed in Helena and used by the executive officer who is requested to travel extensively. The motor pool will purchase and manage the vehicle, provide maintenance, and arrange for fuel, charging a per-mile lease fee to the program based on cost. The operating expenses contain reductions of $1,340 in fiscal 1998 and $1,340 in fiscal 1999 for gasoline and maintenance cost savings. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

5603 03 Department of Livestock Program Proposed Budget	Diagnostic Laboratory Program							
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	19.00	0.00	0.75	19.75	0.00	1.00	20.00	19.75
Personal Services	651,778	11,580	15,881	679,239	11,812	21,164	684,754	1,363,993
Operating Expenses	303,262	25,531	0	328,793	31,275	0	334,537	663,330
Equipment	48,697	(28,819)	0	19,878	(12,979)	0	35,718	55,596
Capital Projects	16,376	(16,376)	0	0	(16,376)	0	0	0
Total Costs	$1,020,113	($8,084)	$15,881	$1,027,910	$13,732	$21,164	$1,055,009	$2,082,919
General Fund	88,117	47,193	0	135,310	47,970	0	136,087	271,397
State/Other Special	931,996	(55,277)	15,881	892,600	(34,238)	21,164	918,922	1,811,522
Total Funds	$1,020,113	($8,084)	$15,881	$1,027,910	$13,732	$21,164	$1,055,009	$2,082,919

Program Description

The Diagnostic Laboratory Program provides livestock laboratory diagnostic support for the Disease Control Program, Milk and Egg Program, and livestock producers. Testing is done for zoonotic diseases and on dairy products to protect the health of Montana citizens. Laboratory testing services are conducted upon request to assist animal owners, veterinarians, and the Department of Fish, Wildlife and Parks and other state personnel in protecting the health of animals and wildlife. The division work is mandated in Title 81, Chapter 2, part 1, MCA.

Funding

The executive funds this program with 13 percent general fund. State special revenue provides the remaining 87 percent from two accounts. The livestock per capita account provides the larger share of state special revenue. This account receives revenue from the taxation of livestock and from interest earnings. The animal health account provides a smaller share of state special revenue. This account receives revenue from milk tax, inspection and testing fees, interests earnings, and various state and federal cost recoveries for services provided. In previous years the animal health account received a portion of the livestock per capita revenue. A separate account has been established for the livestock per capita tax revenue.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5603 03 Department of Livestock Diagnostic Laboratory Program	Present Law Adjustments/Issues	
Present Law Description	Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments		
01 Personal Services	11,580	11,812
02 Inflation/Deflation	10,298	16,042
03 Fixed Costs	(24)	(24)
Total Statewide Adjustments	$21,854	$27,830
Significant Present Law Adjustments		
04 91006 Lab Equipment Replacement	(28,819)	(12,979)
Total Significant PL Adjustments	($28,819)	($12,979)
Other Base Adjustments	($1,119)	($1,119)
Grand Total Present Law Adjustments	($8,084)	$13,732

LFD Comment **- Personal services includes a 3 percent vacancy savings rate**

each year.

4) Lab Equipment Replacement - The budget for lab equipment is $19,878 in fiscal 1998 and $35,718 in fiscal 1999 comprised primarily of a trihead microscope in histopathology at $13,467 to replace one 20 years old; a bihead microscope in clinical pathology at $7,269; a CO2 incubator in bacteriology at $6,700; and replacement of other laboratory items that are out-dated, unrepairable, and sometimes unreliable. Because the base year equipment expenditures were $48,697, there is a decrease each year as shown. The base expenditures reflect equipment purchases needed for ongoing operation of the remodeled lab in Bozeman.

5603 03
Department of Livestock — **Diagnostic Laboratory Program**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Diagnostic Laboratory	0.75		15,881	15,881	1.00		21,164	21,164
Total For New Proposals	0.75		$15,881	$15,881	1.00		$21,164	$21,164

Executive New Proposals

1) Diagnostic Laboratory FTE - The executive recommends 0.75 FTE data management medical secretary, grade nine, at $15,881 in fiscal 1998 and 1.00 FTE at $21,164 in fiscal 1999. Technical and professional staff members currently enter test results that could be more efficiently performed by a medical secretary. The medical secretary will prepare reports required by all laboratory sections and the position is funded with state special revenue.

5603 04 Department of Livestock Program Proposed Budget				Disease Control Program				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	10.75	0.00	0.00	10.75	0.00	0.00	10.75	10.75
Personal Services	370,634	32,063	0	402,697	34,280	0	404,914	807,611
Operating Expenses	159,072	100,990	0	260,062	95,686	0	254,758	514,820
Equipment	47,449	(45,849)	0	1,600	(20,527)	0	26,922	28,522
Benefits and Claims	6,709	(6,709)	0	0	(6,709)	0	0	0
Debt Service	0	10,500	0	10,500	18,000	0	18,000	28,500
Total Costs	$583,864	$90,995	$0	$674,859	$120,730	$0	$704,594	$1,379,453
State/Other Special	583,864	90,995	0	674,859	120,730	0	704,594	1,379,453
Total Funds	$583,864	$90,995	$0	$674,859	$120,730	$0	$704,594	$1,379,453

Program Description

The Disease Control Program provides diagnosis, prevention, control, and eradication of animal diseases, including those in bison and game farm animals. The program cooperates with the Departments of Public Health and Human Services, Fish, Wildlife and Parks, and Agriculture to protect human health from animal diseases transmissible to humans. Sanitary standards are supervised for animal concentration points, such as auction markets, and certain animal product processing facilities, such as rendering plants. The Rabies Control Unit protects human health from rabies by controlling the transmission of domestic animal and wildlife rabies, particularly through eradication of skunks. The control work is mandated in Title 81, Chapters 1, 2, 5, 7, 8, 9, and 20, MCA.

Funding

The Disease Control Program is funded entirely from state special revenue. The primary funding is from the livestock per capita account. This account receives tax revenue (a percent set by the Board of Livestock) assessed to livestock owners. A smaller percentage of revenue is received from the animal health account, which receives revenue from testing/inspection fees and other income.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment **- Personal services includes a 3 percent vacancy savings rate each year.**

5603 04 Department of Livestock Disease Control Program		Present Law Adjustments/Issues	
	Present Law Description	Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	32,063	34,280
02	Inflation/Deflation	(273)	(547)
03	Disease Control Pickups	10,500	44,922
	Total Statewide Adjustments	$42,290	$78,655
Significant Present Law Adjustments			
04 91404	Bison Disease Control	105,760	104,160
	Total Significant PL Adjustments	$105,760	$104,160
Other Base Adjustments		($57,055)	($62,085)
	Grand Total Present Law Adjustments	$90,995	$120,730

4) Disease Control Pickups & Sedans - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is budgeted $10,500 in fiscal 1998 for two sedans and $8,000 in fiscal 1999 for two additional sedans, plus $10,000 in fiscal 1999 to continue the first year vehicles. The vehicles will be located in Helena and Bozeman for disease control and animal health enforcement. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per-mile lease fee to the program based on cost. The operating expenses contain reductions of $5,030 in fiscal 1998 and $10,060 in fiscal 1999 for gasoline and maintenance cost savings. In addition, there is budgeted $26,922 in fiscal 1999 for purchase of one pickup to replace a truck which has more than 120,000 miles. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

LFD Comment **- The vehicle expenses listed above reflect only the additional costs for fiscals 1998 and 1999. The executive did not offset these costs against fiscal 1996 expenses. These offsets probably are included in the unexplained Other Base Adjustments.**

5) Bison Disease Control - There is $105,760 recommended in fiscal 1998 and $104,160 in fiscal 1999 to enable agency personnel to respond to emergency bison control incidents, which are anticipated to occur about 35 times a year. Not all of the costs in the base year were coded to this program. In addition, now that the environmental assessment has been completed, the department will incur capturing and hauling expenses for the first time and these costs are projected to be about $100,000 per year.

LFD Issue **- The 1995 legislature, with the passage of SB 312, authorized the Department of Livestock to regulate bison that pose a threat through the transmission of contagious disease. Under an approved plan by the Governor, the department is authorized to remove or shoot bison from an infected herd that enters Montana. The 1995 legislature's intent was for the Department of Livestock to manage bison control within its existing budget. The only bison control specific appropriation provided by the legislature was a restricted annual appropriation to contract with local veterinarians in case of an emergency disease outbreak ($70,000).**

During fiscal 1996, the department expended $180 from the $70,000 appropriation. However, they expended an additional $124,018 in costs for bison control from appropriations made by the legislature for other purposes. A portion of these costs was recorded in the Bison Control Program. However, other costs are recorded within the Inspection and Control and Animal Health Divisions. According to the department, there were 36 incidents where 6 personnel were pulled off their normal jobs to respond to bison problems, requiring 310 hours per employee. In addition, mileage and vehicle depreciation costs were reported in the Inspection and Control Program. According to the department, departmental vehicles accumulated 114,758 miles responding to emergency situations.

Table 1 shows the total costs of bison control in fiscal 1996.

Table 1
Bison Control
FY 1996 Expenditures

	Bison Control	Animal Health/ Inspection Control	Contingencies	Total Costs
Expenditures				
Personal Services	$7,714	$33,281	$0	$40,995
Operations	45,826	34,427	180	$80,433
Equipment	2,590	0	0	$2,590
Total	$56,130	$67,708	$180	$124,018

The department is requesting four items related to bison control:

1) maintenance of all costs that had been expended for bison control in the Inspection and Control and Animal Health Divisions for personal services and operational costs of the divisions;

2) an increase in the appropriation specifically made for bison control in the Disease Control Program;

3) continuance of the $70,000 contingency appropriation; and

4) $8,203 each year for an attorney in the Centralized Services Program specialized in bison control issues.

Consequently, this request not only represents an increase in total bison control expenditures over the level expended in fiscal 1996, it also represents a further increase in total funding for the department, as the personnel who had been doing bison control work in fiscal 1996 would continue to be funded in those divisions as well. Table 2 compares total fiscal 1996 expenditures for bison control with the requested level and shows the amounts required to replace funds expended in Animal Health and Inspection Control programs.

Table 2
Bison Control
FY 96 Expenditures and
FY 1998 and 1999 Appropriation Request

Program	FY 1996	FY1998	FY 1999
Bison Control	$56,130	$161,890	$160,290
Animal Health/Inspection Control	67,708	67,708	67,708
Centralized Services	0	8,203	8,203
Contingency	180	70,000	70,000
Total	$124,018	$307,801	$306,201

The issue for legislative consideration is: does the legislature wish to increase funding for bison control, or continue its policy that the department will manage bison within its existing budget? If the latter is legislative intent, does the legislature wish the department to continue to make the decisions on what resources will be reallocated for the purposes of bison control?

Options

1) Do not fund the increase in bison control. Continue to follow the policy that the department will fund bison control activities out of its current budget.

2) Expand or delineate what the $70,000 contingency appropriation may be expended for. As stated above, the department reallocated personal services resources, but did not expend funds for this purpose from the contingency account because of its restricted nature.

3) Provide an appropriation specifically for bison control, and either:

a) reduce the appropriations for the Inspection and Control and Animal Health Divisions by a like amount; or

b) do not reduce the appropriations in those divisions.

5603 05 Department of Livestock Program Proposed Budget				Milk & Egg Program				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	4.00	0.00	0.00	4.00	0.00	0.00	4.00	4.00
Personal Services	139,142	2,858	0	142,000	2,857	0	141,999	283,999
Operating Expenses	25,894	5,926	0	31,820	6,227	0	32,121	63,941
Equipment	18,691	1,858	0	20,549	2,908	0	21,599	42,148
Total Costs	$183,727	$10,642	$0	$194,369	$11,992	$0	$195,719	$390,088
State/Other Special	153,075	8,287	0	161,362	9,866	0	162,941	324,302
Federal Special	30,652	2,355	0	33,007	2,126	0	32,778	65,786
Total Funds	$183,727	$10,642	$0	$194,369	$11,992	$0	$195,719	$390,088

Program Description

The Milk and Egg Program ensures that eggs, milk, and milk products sold or manufactured in Montana are fit for human consumption. Enforcement of state and federal laws is accomplished through licensing, sampling, laboratory testing, and product and site inspections, done in cooperation with other state and federal agencies. The program work is mandated in Title 81, Chapters 20, 21 and 22; Titles 20, 21 and 22, MCA.

Funding

The program is funded with 83 percent state special revenue derived from a portion of the 14.97 cents per hundred weight tax on class I milk produced and sold by a producer in Montana. The remaining 17 percent federal funding consists of funds from the U.S. Department of Agriculture to conduct shell egg surveillance work.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5603 05 Department of Livestock Milk & Egg Program			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	2,858	2,857
02		Inflation/Deflation	352	653
03		Fixed Costs	0	0
		Total Statewide Adjustments	$3,210	$3,510
Significant Present Law Adjustments				
04	91002	Travel Adjustment	5,721	5,721
05	91003	Vehicle Replacement	1,858	2,908
		Total Significant PL Adjustments	$7,579	$8,629
Other Base Adjustments			($147)	($147)
		Grand Total Present Law Adjustments	$10,642	$11,992

LFD Comment - **Personal services includes a 3 percent vacancy savings rate each year.**

4) Travel Adjustment - The Board of Livestock has submitted the requested travel increase for

staff to attend four approved meetings for milk rating officers, interstate milk shippers, the U.S. Animal Health Association, and the Western States Animal Health Association. Base expenditures were $1,469.

5) Vehicle Replacement - Base equipment of $18,691 is increased by $1,858 in fiscal 1998 and $2,908 in fiscal 1999 to enable replacement each year of one standard pickup, including an $850 camper shell for protection of inspection materials and supplies that are stored in the trucks. Both trucks will have more than 125,000 miles at the time of replacement.

5603 06 Department of Livestock Program Proposed Budget	Inspection & Control Program							
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	63.21	0.00	0.00	63.21	0.00	0.00	63.21	63.21
Personal Services	1,885,683	54,268	0	1,939,951	56,792	0	1,942,475	3,882,426
Operating Expenses	290,025	2,944	0	292,969	3,940	0	293,965	586,934
Equipment	107,669	41,059	0	148,728	58,363	0	166,032	314,760
Total Costs	$2,283,377	$98,271	$0	$2,381,648	$119,095	$0	$2,402,472	$4,784,120
General Fund	0	0	0	0	0	0	0	0
State/Other Special	2,283,377	98,271	0	2,381,648	119,095	0	2,402,472	4,784,120
Total Funds	$2,283,377	$98,271	$0	$2,381,648	$119,095	$0	$2,402,472	$4,784,120

Program Description

The Inspection and Control Program, as part of the Brands-Enforcement Division, is responsible for livestock theft investigations, stray livestock investigations, brand inspections, recording of livestock brands, filing of security interests on livestock, livestock auction licensing, livestock dealer licensing, hide inspections, and beef inspections. The program work is mandated in Title 81, Chapters 1, 3, 4, 5, 6, 8 and 9, MCA.

Funding

The Inspection and Control Program is funded entirely by state special revenue. The inspection and control state account provides 87 percent of the funding and receives revenue from livestock license and permit fees, inspection and testing fees, and interest earnings. The livestock per capita account funds the other 13 percent with revenues from the taxation of livestock (as set by the Board of Livestock) and interest earnings.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5603 06 Department of Livestock Inspection & Control Program		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	54,268	56,792
02	Inflation/Deflation	(3,262)	(2,266)
03	Fixed Costs	(3)	(3)
	Total Statewide Adjustments	$51,003	$54,523
Significant Present Law Adjustments			
04 91001	Travel Adj.	8,571	8,571
05 91002	Inspection & Control Equipment	41,059	58,363
	Total Significant PL Adjustments	$49,630	$66,934
Other Base Adjustments		($2,362)	($2,362)
	Grand Total Present Law Adjustments	$98,271	$119,095

LFD Comment **- The Executive Budget includes a 3 percent vacancy savings rate each year.**

1) Personal Services - In addition to the statewide adjustments, there is approximately $11,200 more each year for the adjustment for five positions caused by the classification review conducted by the Department of Administration. Incumbents in these five positions are long-time employees who are paid above the market ratio due to

longevity.

4) Travel Adjustment - The recommended travel adjustment of $8,571 each year of the 1999 biennium has been requested by the Board of Livestock due to the low expenses in the base and the need for brands identification and cattle industry training and meetings by the staff in this program.

LFD Comment **- The travel referred to above is increased out-of-state travel for livestock personnel to attend five different international and national meetings. These are five meetings that the administrator and other staff members attend. In fiscal 1996 out-of-state travel totaled $2,933; for both years of the 1999 biennium the executive is requesting $11,504.**

5) Inspection & Control Equipment - Vehicles used for inspections and law enforcement in this program are on a five-year replacement schedule, with six vehicles to be replaced each year of the 1999 biennium. The vehicles are 4X4 extended cab pickups budgeted at $24,038 each in fiscal 1998 and $26,922 each in fiscal 1999. In addition, there is $900 per unit for five emergency light bars to be replaced each year.

LFD Comment **- The reason for the large increase in the base adjustment for equipment costs is because in 1996 only five vehicles were replaced. The additional cost variance is in the price increases reflected in the 1998 and 1999 requests.**

Other Base Adjustments - The decrease of $2,362 each year is primarily elimination of rent for non-state buildings.

5603 08 **Department of Livestock** Program Proposed Budget				**Predator Control**				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	1.25	0.00	0.00	1.25	0.00	0.00	1.25	1.25
Personal Services	14,108	37,660	0	51,768	38,802	0	52,910	104,678
Operating Expenses	392,063	26,614	0	418,677	(75,186)	0	316,877	735,554
Equipment	155	(155)	0	0	(155)	0	0	0
Total Costs	$406,326	$64,119	$0	$470,445	($36,539)	$0	$369,787	$840,232
State/Other Special	406,326	64,119	0	470,445	(36,539)	0	369,787	840,232
Total Funds	$406,326	$64,119	$0	$470,445	($36,539)	$0	$369,787	$840,232

Program Description

The Predator Control Program is operated by the Brands-Enforcement Division. Through helicopter hunting and contracts, predators that kill or injure domestic livestock, primarily coyotes, are controlled. Also in this program is state administration of Section 8 of the federal Rangeland Improvement Act. The department acts as the Governor's representative and facilitator in the mediation process among federal agencies such as the U.S. Forest Service, the Bureau of Land Management, and state and private lessees. Section 8 allows for the review of lands covered by Allotment Management Plans. The program work is mandated in Title 81, Chapter 7, MCA.

Funding

The Predator Control Program is funded entirely from the inspection and control state special revenue account, which receives revenue from livestock license and permit fees, inspection and testing fees, and interest earnings.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5603 08 **Department of Livestock** **Predator Control**			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	37,660	38,802
02		Inflation/Deflation	0	0
03		Fixed Costs	(21,436)	(21,436)
		Total Statewide Adjustments	$16,224	$17,366
Significant Present Law Adjustments				
04	91004	Predator Control	48,050	(53,750)
		Total Significant PL Adjustments	$48,050	($53,750)
Other Base Adjustments			($155)	($155)
		Grand Total Present Law Adjustments	$64,119	($36,539)

LFD Issue **- Personal services includes funding for a grade 15 pilot FTE for which the 1995 legislature eliminated funding. The legislature increased funding for contract services to replace the pilot. The executive present law adjustment fully funds this FTE as well as maintaining contract services at the fiscal 1996 level.**

Options

1) If it is the legislature's intent to fund the 1.0 FTE pilot, eliminate the funding each year for the pilot portion of contracted services ($56,000 for 1996).

2) If it is the legislature's intent that the pilot duties be fulfilled by contracted services, eliminate the 1.0 FTE pilot ($39,708 in fiscal 1998 and $39,847 in fiscal 1999) budgeted in present law.

3) Fixed Costs - The decrease each year is due to insurance and bonds being paid out of the Centralized Services Program and is offset by an increase of a like amount in that program.

4) Predator Control - The program helicopter is scheduled for a major overhaul in fiscal 1998 including $32,800 for a gear box; $34,000 for a compressor; and $56,000 for the engine turbine. The resulting present law adjustment is $48,050 in fiscal 1998. In fiscal 1999, there is a decrease from the base of $53,750.

5603 10

Department of Livestock Program Proposed Budget Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Meat/Poultry Inspection				
FTE	13.50	0.00	3.00	16.50	0.00	3.00	16.50	16.50
Personal Services	410,474	16,153	80,130	506,757	17,072	80,040	507,586	1,014,343
Operating Expenses	124,461	(17,862)	13,372	119,971	(24,261)	13,662	113,862	233,833
Equipment	1,217	0	0	1,217	0	0	1,217	2,434
Debt Service	0	8,400	23,340	31,740	20,000	22,600	42,600	74,340
Total Costs	$536,152	$6,691	$116,842	$659,685	$12,811	$116,302	$665,265	$1,324,950
General Fund	267,023	3,513	58,421	328,957	6,518	58,151	331,692	660,649
State/Other Special	0	1,634	0	1,634	1,681	0	1,681	3,315
Federal Special	269,129	1,544	58,421	329,094	4,612	58,151	331,892	660,986
Total Funds	$536,152	$6,691	$116,842	$659,685	$12,811	$116,302	$665,265	$1,324,950

Program Description

The Meat and Poultry Inspection Program within the Meat, Milk and Egg Inspection Division was established in 1987 by the Montana Meat and Poultry Inspection Act. It implements and enforces a meat and poultry inspection system equal to that maintained by the U.S. Department of Agriculture and the Food Safety Inspection Service to assure clean, wholesome, and properly-labeled meat and poultry products for consumers. The Wholesome Meat Act, adopted by Congress in 1967, required all states to inaugurate and enforce a mandatory statewide meat inspection system equal to the meat inspection system maintained by the U. S. Department of Agriculture. Failure of a state to achieve the implementation of an inspection program results in a mandatory system of only federal meat inspection within the state. Applicable sections of 9 CFR 325 through 9 CFR 381.311 which sets forth federal rules on meat and poultry inspection were adopted by the Department of Livestock.

Funding

The Meat and Poultry Inspection Program is funded 50 percent from the federal meat/poultry inspection special revenue account from the U.S. Department of Agriculture, and 50 percent matching funds from the general fund. The 1993 legislature authorized a funding change which uses a small amount of state special revenue derived from annual meat establishment license fees established in 81-9-201, MCA. For the 1999 biennium this amount is $3,315, or less than 1 percent of total funding.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments

5603 10

Department of Livestock Meat/Poultry Inspection Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	16,153	17,072
02		Inflation/Deflation	300	22
03		Fixed Costs	(10,573)	(10,573)
		Total Statewide Adjustments	$5,880	$6,521
Significant Present Law Adjustments				
04	91007	Leased Vehicles	8,400	20,000
		Total Significant PL Adjustments	$8,400	$20,000
Other Base Adjustments			($7,589)	($13,710)
		Grand Total Present Law Adjustments	$6,691	$12,811

are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

***LFD Comment* - The Executive Budget includes a 3 percent vacancy savings rate each year.**

4) Leased Vehicles Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $11,550 in fiscal 1998 for three sedans and $9,000 in fiscal 1999 for three sedans. In addition, there is $11,000 in fiscal 1999 to continue the first year vehicles. One vehicle will be located in Kalispell and the others will be used statewide. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per-mile lease fee to the program based on cost. The operating expenses contain reductions of $7,546 in fiscal 1998 and $15,092 in fiscal 1999 for gasoline and maintenance cost savings, which are the primary items contained in Other Base Adjustments. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

Department of Livestock — **Meat/Poultry Inspection**

Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Meat Inspectors	3.00	52,751	52,751	105,502	3.00	52,751	52,751	105,502
02	Leased Vehicles New		5,670	5,670	11,340		5,400	5,400	10,800
	Total For New Proposals	3.00	$58,421	$58,421	$116,842	3.00	$58,151	$58,151	$116,302

Executive New Proposals

1) Meat Inspection - The executive recommends $105,502 each year of the 1999 biennium, comprised of $52,751 general fund and $52,751 federal special revenue, to employ 3.00 FTE meat inspectors. There is $80,130 recommended for personal services and $25,372 for operations in fiscal 1998 and $80,040 for personal services and $25,462 for operations in fiscal 1999. The department administers a statewide meat inspection program in accordance with the Federal Meat Inspection Act and the Montana Meat and Poultry Act. In fiscal 1997, three new slaughter and processing plants have become operational and three additional plants are pending. Additional FTE and operating costs are needed to comply with federal and state laws to assure safe products are provided to consumers. By federal mandate, the state must provide a 50 percent general fund match for the meat inspection program. The new plants are located in Superior, Libby, Polson, Laurel, Butte, and Bozeman.

***LFD Comment* - The agency currently employs 8.0 FTE meat inspectors. Meat processing plants are required to be inspected daily by federal mandate. As there are 34 plants that require daily inspection, these inspectors inspect an average of four processing plants per day. Additionally, there are 160 custom exempt plants which require a quarterly inspection. Custom exempt is a processing plant that processes for individuals and not the general public (lower volume). The executive has included a request in HB 3 (the supplemental bill) to fund the inspection of these new plants for fiscal year 1997. The agency states there are seven new plants which will be operational before the beginning of the 1999 biennium (the seventh plant will be located in Plains). Three of the plants are currently operational and being inspected with the use of contract inspectors and overtime of state employees. The fourth plant in Laurel will be operational shortly and the remaining three will be operating by the beginning of fiscal 1998. One of the three FTE is a supervisor who also inspects, and the other two positions are full time inspectors. The funding for this new FTE is**

general fund and federal special revenue on a 50 percent match basis. Federal mandate prohibits the use of user fees to provide the state match.

2) Leased Vehicles New - The executive recommends that three sedans be obtained for this program through a State Motor Pool lease at a budgeted cost of $11,340 in fiscal 1998 and $10,800 in fiscal 1999. The three vehicles are for the three new meat inspectors recommended above. The funding is 50 percent general fund and 50 percent federal special revenue for the meat inspection program.

5603 37 Department of Livestock Program Proposed Budget				Milk Control Bureau				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	4.00	0.00	0.00	4.00	0.00	0.00	4.00	4.00
Personal Services	174,907	(42,224)	0	132,683	(42,052)	0	132,855	265,538
Operating Expenses	44,596	(7,212)	0	37,384	(7,358)	0	37,238	74,622
Equipment	804	76	0	880	(304)	0	500	1,380
Total Costs	$220,307	($49,360)	$0	$170,947	($49,714)	$0	$170,593	$341,540
State/Other Special	220,307	(49,360)	0	170,947	(49,714)	0	170,593	341,540
Total Funds	$220,307	($49,360)	$0	$170,947	($49,714)	$0	$170,593	$341,540

Program Description

The Milk Control Bureau is responsible for supervising, regulating, and controlling the milk industry of the state. All matters pertaining to production, processing, storage, distribution, and sale of milk are investigated. The program ensures compliance with state laws through minimum producer pricing, fair trade rules, extension of credit, and by enforcing financing prohibitions of the law. It also collects the milk tax used to support regulatory and testing functions in the department. As the result of the passage of HB 280, this program was transferred to the department from the Department of Commerce during the 1997 biennium.

Funding

The Milk Control Bureau is funded from state special revenue obtained from assessments on Montana milk products.

Executive Present Law

5603 37 Department of Livestock Milk Control Bureau		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	(42,224)	(42,052)
02	Inflation/Deflation	307	161
03	Fixed Costs	(7,552)	(7,552)
	Total Statewide Adjustments	($49,469)	($49,443)
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$109	($271)
	Grand Total Present Law Adjustments	($49,360)	($49,714)

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - Personal services decrease by more than $42,000 each year due primarily to staff changes that resulted in $38,202 of retirement, vacation, and sick leave payouts in the base year. Replacement personnel have slightly lower longevity and total compensation.

LFD Comment **- Although present law adjustments are decreased for the above reasons, they are further decreased by the transfer of 1.00 FTE from this program to the Centralized Services Program and the 3 percent**

vacancy savings rate applied each year. Because of the decontrol of milk prices the requirement to police retail prices was eliminated. The program has reduced its auditors from 2.00 FTE to 1.25 FTE, with the bureau chief functioning as a 0.25 FTE auditor. The FTE was reassigned to Centralized Services Program as a personnel officer. The remaining auditors are required to audit producer pricing and enforce fair trade rules and financing prohibitions.

3) Fixed Costs - Fixed costs decrease by $7,552 each year because $2,003 for insurance, payroll service fees, and data network charges is transferred to centralized services. Rent, grounds maintenance, and state funds indirect cost recovery decrease by $5,549 because they also are transferred.

5706 00

Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Department of Natural Resources & Conservation				
FTE	484.13	0.99	7.00	492.12	0.99	8.00	493.12	492.12
Personal Services	15,729,602	1,015,236	225,739	16,970,577	1,065,326	256,473	17,051,401	34,021,978
Operating Expenses	5,878,188	1,754,434	395,032	8,027,654	1,878,387	101,454	7,858,029	15,885,683
Equipment	1,100,495	9,222	0	1,109,717	(99,847)	0	1,000,648	2,110,365
Capital Projects	7,740	(2,740)	71,100	76,100	(2,740)	0	5,000	81,100
Local Assistance	125,000	0	0	125,000	0	0	125,000	250,000
Grants	796,434	296,160	0	1,092,594	296,160	0	1,092,594	2,185,188
Transfers	337,500	0	0	337,500	0	0	337,500	675,000
Debt Service	80,231	191,684	0	271,915	203,850	0	284,081	555,996
Total Costs	$24,055,190	$3,263,996	$691,871	$28,011,057	$3,341,136	$357,927	$27,754,253	$55,765,310
General Fund	13,232,665	154,950	33,808	13,421,423	188,549	33,815	13,455,029	26,876,451
State/Other Special	9,749,885	2,812,032	569,694	13,131,611	2,852,241	235,731	12,837,857	25,969,468
Federal Special	1,072,640	297,015	88,369	1,458,023	300,346	88,381	1,461,367	2,919,391
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$24,055,190	$3,263,996	$691,871	$28,011,057	$3,341,136	$357,927	$27,754,253	$55,765,310

Mission Statement

To help ensure Montana's land and water resources provide benefits for present and future generations.

Agency Description

The Department of Natural Resources and Conservation (DNRC), provided for in 2-15-3301, MCA, is responsible for helping to ensure Montana's land and water resources provide benefits for present and future generations.

The duties of the department were significantly altered by the passage and approval of SB 234 during the 1995 legislative session. SB 234 effected a reorganization of environmental and natural resource agencies and impacted the department by: 1) transferring the Energy Division and certain central administrative functions to the new Department of Environmental Quality; and 2) adding the Land Administration Division, Forestry Division, and certain administrative functions from the former Department of State Lands. In addition, in the 1997 biennium the department transferred forest management and improvement activities from the Forestry Division to the Trust Land Management Division and air operations to the Forestry Division from the Centralized Services Division.

The department manages the state's trust land resource to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income generating capacity of the land; protects Montana's natural resources from wildland fires through regulation and partnerships with federal, state and local agencies; promotes stewardship of Montana's water, soil, forest, rangeland resources, and regulates forest practices to protect water quality; provides administrative, legal and technical assistance, and financial grants to the state's conservation districts and provides natural resource conservation and development programs; resolves water resource use conflicts, manages state water projects, investigates water use violations, ensures dam safety compliance, and provides water adjudication support to the Water Court; provides administrative support to the Reserved Water Rights Compact Commission to negotiate the settlement of reserved water rights claims of Indian Tribes and federal agencies on behalf of the State of Montana and its people, and provides administrative support to the Board of Oil and Gas Conservation to assist in conservation of oil and gas and prevention of

resource waste through regulation of oil and gas exploration and production. The State Board of Land Commissioners, comprised of the Governor, State Auditor, Attorney General, Superintendent of Public Instruction, and Secretary of State, exercises the general authority, direction, and control over the care, management, and disposition of state lands under its administration. The director is the chief administrative officer of the board.

Supplemental Appropriation

Forestry

General fund of $4,466,090 for projected net fire suppression costs is recommended. The total fire costs are projected to be about $7.4 million of which $2.93 million was paid from emergency funds authorized by the Governor. Reimbursements from the federal government are expected to be about $1.572 million and will be deposited to the general fund. Additional bills, which have been projected in the above figures, are expected for retardant aircraft, for federal crews that assisted with state fires, and other suppression costs. This means the final supplemental appropriation may be adjusted during the legislative session. Recent general fund supplementals have ranged from a high of $15.5 million to a low of $2.9 million.

The legislature usually does not appropriate any funds to suppress fires (other than personal services appropriated for other purposes but spent on fire suppression), but approves a supplemental appropriation to reimburse the department for appropriation transfers and actual and expected fire suppression costs.

The Executive Budget requests a supplemental appropriation totaling $4,466,090 for the Department of Natural Resources and Conservation to: 1) replace $1,168,954 of fiscal 1997 general fund operating appropriation spent for wildfire suppression in fiscal 1996; and 2) pay $2,547,136 of costs incurred in fiscal 1997; and 3) pay an estimated $750,000 for forthcoming wildfire suppression bills from the U.S. Forest Service and Bureau of Land Management, and estimated 1997 spring fires. The requested amount includes $103,668 spent to extinguish a coal seam fire near Chinook.

State and federal agencies assist each other in their fire-fighting efforts and then bill each other for the costs. Any reimbursements from federal agencies and private/corporate entities (responsible for starting a fire) are deposited in the general fund. The executive estimates that $1,572,000 of general fund spent by the state to assist federal agencies will be reimbursed to the general fund. Since fiscal 1989, the legislature has appropriated $100,000 each fiscal year of these reimbursements to the department to fund additional administrative assistance when administrative personnel are doing work associated with fire suppression. An LFD issue with this practice is raised in the Forestry Division "Executive Present Law" narrative.

The amount of fire suppression supplemental budget authority approved by the legislature has varied widely, as Table 1 shows. If the fiscal 1997 executive budget supplemental request is approved, the total wildfire suppression costs for the 1997 biennium (including emergency appropriations expenditures)will be $7,396,090.

Table 1
General Fund Supplementals for Wildfire Suppression Costs

Biennium	Millions
1985	$2.9
1987	3.7
1989	12.6
1991	3.0
1993	7.9
1995*	15.5
1997*	4.5

* Does not include $8.92 million in the 1995 biennium and $2.93 million in the 1997 biennium of emergency appropriations authorized by the governor for wildfire suppression.

5706 00 Department of Natural Resources & Conservation					Biennium Budget Comparison			
Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	485.12	7.00	492.12	485.12	8.00	493.12	484.13	492.12
Personal Services	16,744,838	225,739	16,970,577	16,794,928	256,473	17,051,401	32,397,978	34,021,978
Operating Expenses	7,632,622	395,032	8,027,654	7,756,575	101,454	7,858,029	12,158,894	15,885,683
Equipment	1,109,717	0	1,109,717	1,000,648	0	1,000,648	2,040,859	2,110,365
Capital Projects	5,000	71,100	76,100	5,000	0	5,000	12,740	81,100
Local Assistance	125,000	0	125,000	125,000	0	125,000	250,000	250,000
Grants	1,092,594	0	1,092,594	1,092,594	0	1,092,594	1,573,570	2,185,188
Transfers	337,500	0	337,500	337,500	0	337,500	337,500	675,000
Debt Service	271,915	0	271,915	284,081	0	284,081	98,350	555,996
Total Costs	$27,319,186	$691,871	$28,011,057	$27,396,326	$357,927	$27,754,253	$48,869,891	$55,765,310
General Fund	13,387,615	33,808	13,421,423	13,421,214	33,815	13,455,029	26,562,666	26,876,451
State/Other Special	12,561,917	569,694	13,131,611	12,602,126	235,731	12,837,857	20,094,903	25,969,468
Federal Special	1,369,655	88,369	1,458,023	1,372,986	88,381	1,461,367	2,212,322	2,919,391
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$27,319,186	$691,871	$28,011,057	$27,396,326	$357,927	$27,754,253	$48,869,891	$55,765,310

Agency Issues

Resource Indemnity Trust

The Montana Constitution (Article X, Section 2) requires the existence of the Resource Indemnity Trust (RIT). The trust must remain inviolate until the balance reaches $100 million. After that time, the state may spend any trust balance over the $100 million. Based on Revenue Oversight Committee estimates, the trust will reach $97.7 million at the end of fiscal 1999. The trust receives 45.9 percent of the revenue from the: 1) resource indemnity and ground water assessment (RIGWA) tax paid by mineral producers; and 2) portions of oil and natural gas production tax that are allocated for distribution under RIT statutes. Beginning fiscal 1998, the trust also receives 8.5 percent of the metalliferous mines tax paid by producers of metals.

Trust Interest

The constitution does not restrict the spending of interest from the RIT. Statute allocates $5,725,000 of the interest at the beginning of each biennium for five specific purposes. The legislature has already provided statutory appropriations to spend the money from two of these allocations - the environmental contingency account and the oil and gas damage mitigation account. The other three allocations are for renewable resource grants, reclamation and development grants, and water storage project grants and loans. Appropriations for these purposes are usually provided in HB 6, HB 7, and HB 5. The remainder of the interest is allocated as follows: 1) 36 percent to the renewable resource account, which also receives a portion of the RIGWA tax proceeds; 2) 40 percent to the reclamation and development account, which also receives portions of the RIGWA and metalliferous mines tax proceeds; 3) 18 percent to the hazardous waste/CERCLA account; and 4) 6 percent to the environmental quality protection account. This interest money, along with other income, is being requested by the executive in HB 2 to fund operational costs of seven agencies.

Table 2 shows three elements of RIT. The first shows the RIT revenues and trust balance for the past three fiscal years and the projections for the 1999 biennium. The second shows the amounts of interest generated by the RIT and the amounts that are allocated by statute for specific purposes. The third section shows six main accounts that receive RIT interest and other revenues. Shown for each account are the calculations to determine available fund balances at the beginning of fiscal 1998, a list of revenues, and a list of expenditures as proposed by the executive.

Over Appropriation

Table 2 shows that in four of the six accounts, requested expenditures by the executive exceed anticipated revenues by $2.27 million. Most of the over appropriation ($1.8 million) occurs in the renewable resource account. Under current law, the legislature has the following options to correct the imbalance:

1) Reduce operations of one or more of the agency programs funded from one or more of the accounts;

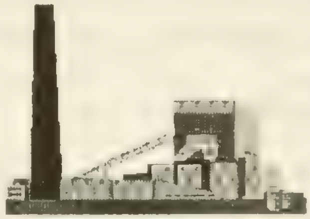
2) Reduce grants from the $5.0 million allocation; and/or

3) Replace the funding for the appropriations from another revenue source, such as general fund.

Table 2
RIT Trust, Interest Earnings, and Related Expenditure Accounts
1999 Biennium Projections

RIT Trust Revenues (ROC Estimates)	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999
RIGWAT Proceeds-Coal & other (45.90%)	$658,401	$779,360	$581,546	$539,325	$559,521	[illegible]
RIGWAT Proceeds-Oil (45.90%)	706,119	612,640	766,565	566,169	542,270	536,720
RIGWAT Proceeds-Natural Gas (45.90%)	251,727	206,190	190,079	88,997	78,995	78,757
Metal Mine Tax Proceeds (8.50%)	965,653	700,217	0	0	474,045	542,725
Total Deposits	$2,581,901	$2,298,406	$1,538,190	$1,194,491	$1,654,831	$1,709,461
Trust Balance (shooting for $100 million)	$89,313,612	$91,612,018	$93,150,208	$94,344,699	$95,999,531	$97,708,991

	Fiscal 1998	Fiscal 1999	Biennium Total
RIT Trust Interest Earnings Projections	$7,887,010	$7,992,235	$15,879,245
Priority Statutory Allocations of Interest (Biennial)			
Environmental Contingency Account (02107)*	(175,000)	0	(175,000)
Oil & Gas Damage Mitigation Account (02010)**	(50,000)	0	(50,000)
Renewable Res. Grant & Loan Program (grants)	(2,000,000)	0	(2,000,000)
Reclamation & Development Grants (grants)	(3,000,000)	0	(3,000,000)
Water Storage Account (02216)	(500,000)	0	(500,000)
Total Allocations	($5,725,000)	$0	($5,725,000)
Amount Available for Further Distribution	$2,162,010	$7,992,235	$10,154,245



Related Accounts (1999 Biennium Totals)	Renewable Resource (02272)	Reclamation & Development (02458)	Hazardous Waste/CERCLA (02070)	Environmental Quality Protection (02162)	Groundwater Assessment (02289)***	Water Storage (02216)
Further Distribution % of RITT Interest	36%	40%	18%	6%	0%	0%
Beginning Fiscal 1997 Fund Balance	$2,107,086	$1,976,208	$667,133	$977,549	$91,848	$554,523
Reserved for continuing appropriations	(4,167,430)	(2,965,337)	0	0	0	(954,916)
Reserved for long-term assets (outstanding loans)	(1,257,511)	0	0	0	0	0
Reserved for long-term advances	0	0	0	(115,000)	0	0
Fiscal 1997 appropriations	(2,027,027)	(2,953,662)	(1,416,719)	(907,665)	(666,000)	(102,716)
Fiscal 1997 adjustments	0	0	0	0	92,035	0
Fiscal 1997 revenues	4,252,646	4,054,574	1,400,148	753,383	482,118	0
Available Fund Balance Beginning FY98	($1,092,236)	$111,783	$650,561	$708,266	$0	($503,109)
Revenues (ROC, agency estimates)						
RIT Trust Interest-direct	$2,000,000	$3,000,000				$500,000
RIT Trust Interest-further distribution (above %)	3,655,528	4,061,698	1,827,764	609,255		
RIGWAT Proceeds (10%, 30%, 14.1%)	511,200	1,533,600			720,792	
Metal Mines Tax (4.8%, 2.2%)		574,176			263,164	
Coal Tax (Sweep from accts. 04011 and 04008)	550,000					
RRD Loan Repayments	224,000					
STIP Interest			40,000			0
Cost Recoveries				600,000		
Administrative Fees	12,000					
State-owned Project Revenue	452,243					
Total Revenues	$7,404,971	$9,169,474	$1,867,764	$1,209,255	$983,956	$500,000
Appropriations (Executive Budget)						
House Bills 6 and 7	$2,000,000	$3,000,000				
House Bill 6-Emergency Grants	125,000					
MSU-Northern (Statutorily appropriated)	480,000					
MSU-Bureau of Mines					1,332,000	
DNRC Centralized Services Division	626,496	230,296				
DNRC Centralized Services New Proposal	22,846					
DNRC-Conservation and Res. Devel. Division	1,268,158	930,600				
DNRC-CARDD Debt Service (Statutory approp.)	37,592					
DNRC-Water Resources Division	1,589,324	2,021,261				
DNRC-Water Resources New Proposal	310,000					
DNRC-Reserved Water Rights Compact Comm.	49,608	675,936				
DEQ-Planning, Prevention & Assistance		98,340	527,901	25,036		
DEQ-Enforcement		11,648	174,258	13,668		
DEQ Remediation			321,923	1,631,456		
DEQ-Remediation New Proposal				4,104		
DEQ-Permitting & Compliance		1,962,957	1,379,776			
Governor's Office-Flathead Basin Commission	88,510					
Judiciary-Water Court	1,133,718					
Judiciary New Proposal	6,772					
Library Commission-NRIS	348,054	308,096				
Legislature-Environmental Quality Council		28,092				
Proposed Executive Pay Plan	68,091	92,002	37,238	20,878	0	0
Total Appropriations	$8,154,169	$9,359,228	$2,441,096	$1,695,142	$1,332,000	$0
Projected 1999 Biennium Ending Balance	($1,841,434)	($77,971)	[illegible]	[illegible]	[illegible]	[illegible]

* The governor must report on the expenditures from the environmental contingency account in the executive budget. Expenditures are statutorily appropriated.

** Amounts are deposited to the oil & gas damage mitigation account to bring the balance up to $200,000 (82-11-161, MCA). All money in the account is statutorily appropriated.

*** Amounts are deposited to the groundwater assessment account to bring the balance up to $666,000. Any excess goes to the RIT [illegible] 2.905, MCA)

Reorganization

SB 234 (1995 session) reorganized the department. Since the same reorganization affected the Department of Environmental Quality, a discussion and information on reorganization costs for both departments is included in the "Agency Issues" section in that department. The Legislative Finance Committee is sponsoring legislation in the 1997 session that will call for an interim study of the RIT to address a number of issues, including how uses of the funds might be focused and a balance of revenues and expenditures maintained.

Additional FTE

The executive increases the FTE in the agency by 3.0 over the number funded in the 1995 session. This is a net change of an additional 3.0 FTE transferred from the Department of Environmental Quality, where FTE are reduced by 3.0 from the level funded in fiscal 1996. The FTE were transferred to further align resources between the two new departments due the reorganization by SB 234.

New Proposals

Among other increases, the executive is requesting an additional $332,846 RIT funding for program expansions in the 1999 biennium. In reviewing and discussing all the executive requests for new proposals, the legislature might consider: 1) reducing present law programs that are of a lesser priority than the new proposals approved; 2) allowing state special revenue to be switched to federal revenue in cases where federal funds may become available; 3) restricting the appropriations if the legislature does not want the authority used for any other purpose; and 4) requesting performance measures so that the 1999 legislature can evaluate the effectiveness of the increased funding and determine whether or not it should continue.

Combined Coal Severance Tax Account

This agency is eligible to receive a portion of coal severance tax revenue for conservation districts. This use is one of the five that can receive up to 8.36 percent of the tax. The legislature prioritizes available money among these five uses. Since two appropriations subcommittees (Natural Resources and Education) are involved in the process, these subcommittees should coordinate their decisions to establish priorities among the five uses and appropriate available funding accordingly. The executive is requesting $686,140 in fiscal 1998 and $682,209 in fiscal 1999 from this account for conservation districts. Previous allocations were about $85,000 each year. See "Combined Coal Severance Tax Account" in the Overview Section of the LFD Budget Analysis for further analysis and legislative options.

Language Appropriations

The executive is requesting $3,850,000 as language appropriations in three programs for the 1999 biennium. A language appropriation is language that appropriates funding on a contingent basis, usually when the revenue becomes available, and must contain a maximum amount. It does not become a valid appropriation until the contingency is met. The 1995 legislature approved $4,462,877 as language appropriations for the department in the 1997 biennium, of which only $271,140 was spent in fiscal 1996. Table 3 shows these amounts and their purposes.

Table 3
Department of Natural Resources and Conservation
House Bill 2 Language Appropriations
1997 & 1999 Biennia

		1997 Biennium		1999 Biennium
Purpose	Program	Language Amount	Spent in FY1996	Requested Amount
1 Application fee to cover costs of investigating small hydroelectric facilities at state-owned projects	Water Res.	$100,000		$0
2 Fines for wasting or unlawfully using water to carry out enforcement functions	Water Res.	40,000		40,000
3 Water well contractor bond forfeitures to pay for remedial action, damage, & administration	Water Res.	40,000		40,000
4 Money from the sale of power for equipment replacement at the Broadwater dam or debt service	Water Res.	550,000		700,000
5 Interest earnings to repair, improve, or rehabilitate the Broadwater-Missouri diversion	Water Res.	20,000		20,000
6 License and permit fees for weather modification to cover the department cost of review	Water Res.	300,000		0
7 Money from arbitration, litigation, or settlements to pay costs and debt service on Broadwater	Water Res.	1,000,000	$250,458	750,000
8 Lease payment money to administer the water project leased properties program	Water Res.	50,000	3,834	50,000
9 Loan principal repayments and accrued interest for fund rangeland loans	CARDD	1,400,000		1,400,000
10 Coal tax revenue for grants to conservation districts	CARDD	200,000		200,000
11 Grazing district AUM fee to administer grazing district activities	CARDD	30,000	16,848	30,000
12 Money in the Renew. Resource Grant & Loan acct. to buy prior liens on loan secured property	CARDD	400,000		400,000
13 Federal money for the underground injection program	Oil & Gas	220,000		220,000
14 Federal money to hire underground injection program manager if state receives primacy	Oil & Gas	112,877		0
Total		$4,462,877	$271,140	$3,850,000

Language appropriations might have some use, but are generally discouraged, as they are not included in total expenditures. The legislature should carefully consider the following disadvantages before approving any language appropriations.

Language appropriations are disadvantageous because they:

1) are not reflected in the general appropriations act (HB 2) and budget comparisons do not reflect them. Therefore, the true budget is not properly reflected;

2) may be overstated. With 50 percent of the 1997 biennium completed, the department had spent only 6.1 percent of the language appropriations. If the legislature approves this upper spending limit, it foregoes some of its power to control spending through the normal legislative process. Basically, through a language appropriation, agencies can spend all the money they receive;

3) can cause revenues to increase to the amount of the appropriation in cases where fees can be set by the department (for example: grazing district fees). Usually appropriations are set equal to or below revenue estimates; revenues are not set to equal appropriations;

4) have been used for funds or activities that do not have to be appropriated in HB 2, such as transfers between accounts or for debt service. Expenditures out of the debt service account are already

statutorily appropriated by the legislature;

5) have been from accounts, such as RIT accounts, that are of wide interest or have fixed revenue. Money from these accounts should be appropriated directly in HB 2 so anticipated expenditures are properly reflected;

6) have been used for funds, such as federal funds, that could be budget amended if their receipt is so uncertain; and

7) have been used for on-going projects. The nature of these projects should allow for review and appropriation by the legislature and is contrary to the primary purpose of language appropriations -- to manage the uncertainty in the receipt or the amount of money in an efficient manner.

Legislative Options

1) Appropriate the funds directly in HB 2. Request the agency to provide realistic expenditure estimates or to justify why the expenditure of the money could not wait until the next legislative session. Restrict the appropriation so the authority can not be used elsewhere.

2) Do not approve language appropriations for federal funds. Direct the agency to go through the budget amendment process, the supplemental appropriation process, or the budget amendment bill to receive appropriations to spend unanticipated federal funds. Recent revision of the budget amendment law allows approving authorities to easily establish federal budget amendment authority when funds become available.

3) Do not approve language appropriations for debt service. Direct the agency to transfer the money to the debt service account and to spend the funds through the statutory appropriation given by the legislature for that purpose.

4) If language appropriations are wanted, language should be inserted in HB 2 that is specific on what the appropriation is for, the revenue source, and any restrictions and requirements. The following global language in HB 2 is suggested:

> "The language appropriations in this bill are subject to the following provisions:
> a) The money can only be spent for the specifically stated purpose. If established on SBAS, these appropriations are considered to be restricted in the context of this bill.
> b) Expenditures must be reported on state accounting records and kept separate from present law operations. In preparing the 2001 biennium budget for legislative consideration, the office of budget and program planning may not include the expenditures from these appropriations in the present law base. If the Executive Budget requests language appropriations, each request must state the reason why the expenditures could not be budgeted in present law or as a new proposal in lieu of the language appropriation.
> c) A report must be submitted by all departments that receive a language appropriation to the legislative fiscal analyst following the end of each fiscal year of the biennium. The report must include an accounting of all expenditures, FTE, and funding sources associated with the language appropriations.

d) Expenditures must not be made for on-going projects or with funds that could have been anticipated by the legislature."

5706 04 Department of Natural Resources & Conservation Program Proposed Budget				Trust Land Management Division				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	118.71	3.00	0.00	121.71	3.00	0.00	121.71	121.71
Personal Services	3,752,375	490,732	0	4,243,107	503,713	0	4,256,088	8,499,195
Operating Expenses	1,321,443	1,073,267	85,032	2,479,742	1,141,016	101,454	2,563,913	5,043,655
Equipment	377,267	(127,269)	0	249,998	(140,799)	0	236,468	486,466
Capital Projects	2,740	2,260	71,100	76,100	2,260	0	5,000	81,100
Debt Service	0	28,800	0	28,800	45,323	0	45,323	74,123
Total Costs	$5,453,825	$1,467,790	$156,132	$7,077,747	$1,551,513	$101,454	$7,106,792	$14,184,539
General Fund	3,033,928	(61,282)	0	2,972,646	(45,915)	0	2,988,013	5,960,659
State/Other Special	2,341,058	1,398,547	156,132	3,895,737	1,467,480	101,454	3,909,992	7,805,729
Federal Special	78,839	130,525	0	209,364	129,948	0	208,787	418,151
Total Funds	$5,453,825	$1,467,790	$156,132	$7,077,747	$1,551,513	$101,454	$7,106,792	$14,184,539

Program Description

The Trust Land Management Division provides for the administration and management of trust lands granted to the State of Montana by the Enabling Act of 1889. These lands were granted to the state for the purpose of providing support to the common schools and endowed institutions of the state. This is obtained by achieving the greatest revenue for the trust funds while at the same time weighing the greatest monetary return against the long-term productivity of the land to ensure continued future returns to the trusts. These lands currently total 5.2 million surface acres and 6.2 million mineral acres. Additionally, the division is responsible for the administration of approximately 6,000 miles (40,000+ acres) of the beds of navigable waterways. The Trust Land Management Division is divided into four primary programs: forest management, agriculture and grazing management, special use management, and minerals management.

The division work is mandated primarily in Title 75, Chapter 1, and Title 77, Chapters 1 through 6, MCA.

Funding

General fund pays for 42 percent of the executive request (Table 4). State special revenue, generated from the sale of timber on state land, is used to finance the forest improvement program. HB 393 (1993 session) combined the brush disposal and timber stand improvement fees into one fee for forest improvement and authorized the Land Board to require a timber purchaser to pay a timber improvement fee. The Land Board approves the proposed fee, which can vary, when timber sales are approved based on the state's expected costs of slash disposal, road access and maintenance, and reforestation. To the extent that fees reduce the bid prices, the amount of interest and income from the common school and other trusts (which would have been distributed to schools and other trust beneficiaries) is reduced.

State special revenue also implements HB 652 and HB 201 (1995 session) that funded 18.00 FTE to increase timber sales on state lands. The funding is derived from sale of timber from common school lands. The money otherwise is distributed to the general fund for support of schools (95 percent) and to the common school trust (5 percent). By statute, the State Land Board can allocate up to 2.5 percent of income generated by state trust lands (except timber sale revenue) to the resource development account. Revenue deposited in the account is no longer available for uses supported by the common school and other trusts. The executive also

funds the new proposal from additional state special revenue to be derived from either an increase in the 2.5 percent or from additional interest and income from all land trusts. The department plans to introduce legislation allowing this funding (LC175 and LC232). See the LFD Common School Trust Constitutional Issues that are related to these three funding sources in the "Program Issues" section.

State special revenue is also derived from fees charged to applicants wishing to purchase a cabin or home site. If fees are not commensurate with costs, general fund pays the remaining cost. As a new activity, the 1995 legislature approved $150,000 state special revenue each fiscal year from fees paid by private entities for preparation of EIS's if required by Montana Environmental Policy Act (MEPA) in the exchange of trust lands. Since EIS fees are private funds and are not appropriated by the legislature, the LFD has raised an issue under present law adjustment number 6.

The federal government provides funding for the exchange of state land within the Crow reservation according to the Crow Boundary Settlement Act of 1994 and for timber management and improvement.

Table 4
Trust Land Management Division
Executive Funding 1999 Biennium

Funding Source	Fiscal 1998	Fiscal 1999
General Fund	$2,972,646	$2,988,013
State Special Revenue		
Forest Improvement Fees	$1,667,115	$1,740,627
Common School Trust Timber Sales*	1,301,830	1,299,517
State Lands Resource Development*	395,435	393,715
EIS Fees	266,464	265,815
Contingent Trust Interest & Income*	156,725	102,500
Recreational Use Permits	61,530	61,600
Cabin Site Sales Fees	47,233	47,263
Subtotal	$3,896,332	$3,911,037
Federal Funds		
Indirect Cost Recovery Funds	$186,080	$185,994
Forest Resources	23,284	22,793
Subtotal	$209,364	$208,787
Total Funds	$7,078,342	$7,107,837

*Constitutional issues are raised in the "Program Issues" section.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5706 04 **Department of Natural Resources & Conservation** **Trust Land Management Division** Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	490,732	503,713
02		Inflation/Deflation	3,003	5,306
03		Fixed Costs	26,787	26,764
		Total Statewide Adjustments	$520,522	$535,783
Significant Present Law Adjustments				
04	79199	Equip-Pl-Pc-Hb2 Cv 04104	0	0
05	91004	Equip-Pl-Hb2	(135,854)	(149,384)
06	91073	Environmental Impact Statement	132,653	132,653
07	91074	Cabinsite/Homesite Sales	25,000	25,000
08	91075	Crow Land Exchange	96,942	97,150
09	91076	Weed Control - Hb 395	25,000	25,000
10	91077	Recreational Use	10,000	10,000
11	91078	Royalty Auditor	3,951	3,951
12	91079	Workload Increase	12,565	11,875
13	91080	Reorganization	7,102	11,226
14	91081	Forest Management - Hb201	203,223	202,007
15	91082	Forest Improvement - Hb201	542,956	611,914
16	91083	Leased Vehicles Replacement	23,730	34,338
		Total Significant PL Adjustments	$947,268	$1,015,730
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$1,467,790	$1,551,513

LFD Issue - The executive present law adjustments increase operating expenses over 81 percent from the amount spent in fiscal 1996. These adjustments include reductions in general fund of $61,282 in fiscal 1998 and $45,915 in fiscal 1999. The revenue anticipated from the sale of cabin site fees and for the Crow boundary settlement is greater than the requested expenditures. These revenues fund operations that should be funded with general fund. The general fund reductions in this program may be less if the legislature decides to replace funding for Statewide Present Law Adjustments (numbers 7 and 8) from these sources with general fund rather than reduce expenditures.

LFD Comment - In fiscal 1996, the division reduced HB 2 general fund appropriations by $10,000. It transferred this amount to the Department of Administration to fund cost overruns in Plains Office long-range building project, originally appropriated in HB 5.

5) Equip-PL-HB 2 - Fiscal 1996 equipment expenditures were $377,267. The Executive Budget provides for various equipment requests of $241,413 in fiscal 1998 and $227,883 in fiscal 1999. The net decrease is $135,854 in fiscal 1998 and $149,384 in fiscal 1999.

LFD Comment - Since the legislature appropriated $118,000 for equipment purchases due to the passage of HB 201 (see numbers 14 and 15) only for fiscal 1996, expenditures for subsequent years are expected to be less. In addition, vehicles normally scheduled for replacement will be leased from DOT (see adjustment number 16).

6) Environmental Impact Statement - This executive recommendation for $132,653 state special revenue each year of the 1999 biennium will provide spending authority of private funds for the contracting necessary for the preparation of MEPA documents, appraisals, and other analysis required for exchanges and other actions on trust lands initiated by private entities.

LFD Issue - The department spent $17,669 for this purpose in fiscal 1996. The executive is requesting $150,000 each fiscal year. These funds are private funds and do not need to be budgeted by the legislature.

7) Cabinsite/Homesite Sales - This executive recommendation for $25,000 each year of the biennium will provide state special revenue spending authority for cabinsite/homesite sales.

LFD Issue **- The department collects fees (up to $1,000 per sale) from the sale of cabin sites and uses the money to recover department expenses. Costs in excess of $1,000 are paid by general fund. Although the executive requests $25,000 each fiscal year in expenditures, $47,233 in fiscal 1998 and $47,263 in fiscal 1999 of revenue from this source is used to fund program costs. Given historical collections, it is doubtful that the amount requested by the executive will be collected. The executive over appropriates revenues by $22,233 in fiscal 1998 and $22,263 in fiscal 1999 and uses this money to fund expenses that should be funded by general fund.**

LFD Issue **- Although $25,000 was appropriated each year of the 1997 biennium in anticipation of the revenue, only $950 was collected in fiscal 1996. The appropriations have not been used for the purpose of cabin site sales. In fiscal 1996, the department transferred $12,000 of the authority to fund pay plan expenses. In fiscal 1997, the department transferred $15,000 of the cabin site sales authority for other purposes. Does the legislature want to continue appropriating funds for this purpose?**

Legislative Options

> **1) Do not approve the executive request. Remove $47,233 in fiscal 1998 and $47,263 in fiscal 1999 of funding from this source and expenditures of the same amount. Direction is needed from the legislature on where to make these reductions.**
>
> **2) Reduce the executive funding to match the $25,000 requested each year and restrict the appropriations in HB 2. Remove expenditures of $22,233 in fiscal 1998 and $22,263 in fiscal 1999 or fund them with general fund.**
>
> **3) Approve the executive request but restrict the appropriations in HB 2 so they cannot be used for any other purpose.**

8) Crow Land Exchange - Additional authority is needed for the Crow Land Exchange because of lesser expenses in fiscal 1996. The request is for $96,942 in fiscal 1998 and $97,150 in fiscal 1999 in federal special revenue.

LFD Issue **- The 1995 legislature approved $150,000 additional federal funding each year of the 1997 biennium for exchanges of public (federal) land within Montana for 46,625 acres of state trust lands within the Crow reservation to fulfill the requirements of the national Crow Boundary Settlement Act of 1994. The department only received (and spent) $50,338 in fiscal 1996. Although the executive is requesting the above increases (for totals of $147,280 in fiscal 1998 and $147,488 in fiscal 1999), revenues of $186,080 in fiscal 1998 and $185,994 in fiscal 1999 from this source are used to fund program expenses. The executive over appropriates revenues by $38,800 in fiscal 1998 and $38,506 in fiscal 1999 and uses this money to fund expenses that should be funded by general fund.**

Legislative Options

> **1) Do not approve the executive request. Remove $186,080 in fiscal 1998 and $185,994 in fiscal 1999 of funding from this source and expenditures of the same amount. Direction is needed from the legislature on where to make these reductions.**

2) Reduce the executive funding to match the $147,280 requested in fiscal 1998 and $147,488 in fiscal 1999. Remove expenditures of $38,800 in fiscal 1998 and $38,506 in fiscal 1999 or fund them with general fund.

9) Weed Control - HB 395 - HB 395 passed by the 1995 legislature required state land managing agencies to enter into weed control plans with county weed districts. Agencies are to include a specific plan of operation and a budget to implement the plan. The department has been developing these plans and has identified needs such as mapping and specific weed control treatments. The general fund cost is $25,000 each year of the 1999 biennium.

LFD Issue **- This general fund adjustment is more properly a new proposal. HB 395 appropriated $54,046 of resource development funds to develop the 6-year integrated noxious weed management plan for cooperative agreements for noxious weed management on state-owned land. Of this amount, $27,957 was spent. In addition, the department received an $18,865 state special revenue grant from the Department of Agriculture to assist in this effort. This expansion, particularly with a change in funding to general fund, should receive the same scrutiny given new proposals.**

Legislative Options

1) Approve the increase:

a) funded with resource development funds;

b) funded with general fund.

2) Do not approve the increase.

10) Recreational Use - Authority is recommended in the recreational use program for weed control and damage compensation not spent in fiscal 1996 but which the department is required to have available by 77-1-809 and 77-1-410, MCA. State special revenue cost is $10,000 each year of the 1999 biennium.

LFD Comment **- Section 77-1-809, MCA, addresses compensation for damage by recreational users of state lands. Under 77-1-810, MCA, the department is required to establish a weed control management program for the control of noxious weeds caused by recreational use of state lands. By rule, the department can provide for direct compensation for noxious weed control activities. Money from recreational use permits are to fund these programs.**

11) Royalty Auditor - Additional travel expenses of $3,951 state special revenue each year of the 1999 biennium are for the royalty auditor who was trained in fiscal 1996 and thus did not have base year expenses. The recommendation will restore the travel allowance to the amount allocated for the Department of Revenue auditors.

LFD Comment **- This increase is from the resource development account. Justification for the increase states the increase is to fund travel expenses at the same level as Department of Revenue royalty auditors. Prior to fiscal 1996, the DOR received $30,000 to fund 1.0 FTE and royalty collection activities. The 1995 legislature did not provide that funding for the 1997 biennium and the executive does not request any funding for DOR in the 1999 biennium from this account. The department has its own royalty auditor.**

12) Workload Increase - An increase of $12,565 in fiscal 1998 and $11,875 in fiscal 1999 in some operating areas is due to an increasing workload on staff resulting from a greater interest in trust lands, especially in the areas of mineral activity, special uses, and recreational use. Funding is 75 percent general fund and 25 percent state special revenue funds.

***LFD Comment* - These adjustments are more properly classified as "Other Base Adjustments" since specific justification is not provided. The state special revenue is from the resource development account.**

13) Reorganization - A general fund increase of $7,102 in fiscal 1998 and $11,226 in fiscal 1999 is due to reorganization of state agencies.

***LFD Issue* - SB 234 (1995 session) reorganized natural resource agencies. Although reorganizational costs were identified in the fiscal note for fiscal 1996, anticipated staff reductions were planned to pay for any costs. The legislature may wish to consider that there should be no further reorganization costs, or the costs should be absorbed in current operations.**

14) Forest Management - HB 201 - Additional state special revenue funds are due to the annualization of expenses from HB 201 (phased-in 1997 biennium new proposal). The increase is $203,223 in fiscal 1998 and $202,007 in fiscal 1999.

***LFD Issue* - This adjustment provides more funding than warranted by the annualization of expenditures. The 1995 legislature provided an additional 9.0 FTE and $562,368 in fiscal 1996 and 12.0 FTE and $545,076 in fiscal 1997 to implement HB 201. The legislation requires the department to annually harvest 45-55 million board feet of timber from state lands. The appropriation for fiscal 1997 included increases for personal services and operating costs. The increases for personal services in the 1999 biennium are requested in present law adjustment number 1. This present law adjustment represents the increase for additional operational costs. However, the 1995 legislature only appropriated an additional $40,000 for operational costs in fiscal 1997 over fiscal 1996, not the amounts of this request. If it is the intent to annualize expenditures, the legislature should reduce this present law adjustment to a $40,000 increase each year. The funding is derived from the timber sale revenue from common school trust land that would otherwise be deposited in the common school trust (5 percent) and distributed to the general fund for schools (95 percent). See the Common School Trust Constitutional Issues in the "Program Issues" section.**

15) Forest Improvement - HB 201 - The recommended increase is due to increased timber harvest resulting from HB 201, requiring increased forest improvement activities to maintain healthy and manageable forest lands. The state special revenue fund increase is $542,956 in fiscal 1998 and $611,914 in fiscal 1999.

***LFD Issue* - Revenue for the increase comes from a fee set by the Land Board and collected from purchasers of state timber contracts. The fiscal 1998 request represents a 237 percent increase from fiscal 1996 expenditures and a 267 percent increase for fiscal 1999. However, information supplied by the department for common school timber harvests indicates the harvests are expected to increase 97.1 percent in fiscal 1998 and 144.3 percent in fiscal 1999 from fiscal 1996 levels. If the legislature based the requested increases on the anticipated percentage increase of timber harvests, the total request would be reduced by $321,190 in fiscal 1998 and $280,145 in fiscal 1999.**

16) Leased Vehicles Replacement - For vehicles to leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $28,800 in fiscal 1998 for six pickups and $21,923 in fiscal 1999 for four pickups and three sedans. In addition, there is $23,400 in fiscal 1999 to continue the first year vehicles. The vehicles will be located in Lewistown, Kalispell, Missoula, Miles City, and Billings. The motor pool will purchase and manage the vehicles, provide maintenance,

and arrange for fuel, charging a per-mile lease fee to the program based on cost. The operating expenses contain reductions of $5,070 in fiscal 1998 and $10,985 in fiscal 1999 for gasoline and maintenance cost savings. The net adjustments are $23,730 in fiscal 1998 and $34,338 in fiscal 1999. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

5706 04
Department of Natural Resources & Conservation — Trust Land Management Division
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Swan Boot Maintenance			50,032	50,032			66,454	66,454
02 Water Rights Claims			71,100	71,100				
03 Environmental Liability			35,000	35,000			35,000	35,000
Total For New Proposals			$156,132	$156,132			$101,454	$101,454

Executive New Proposals

1) Swan Boot Camp Maintenance - The executive recommends $50,625 state special revenue in fiscal 1998 and $67,500 in fiscal 1999 for Swan Boot Camp maintenance. The Department of Corrections (DOC) plans to vacate the camp by October 1, 1997. Because the camp is located on state trust lands, with an easement to DOC, once vacated the camp and all improvements will revert to the school trust. The executive believes the camp is likely to be marketable as a commercial lease, but marketing the lease will take time a lease may require that the state absorb some maintenance costs to keep the site useable. Once a lease is established, the state cost will be minimal and there will not be a need for maintenance funding in future biennia. Funding of this recommendation is contingent upon legislation to use trust land revenues for trust land administration.

LFD Issue - **There is a state forest of 42,000 acres in the Swan River watershed. The 1993 legislature eliminated the statute requiring the former Department of State Lands to operate the Swan River Forest camp and eliminated 6.0 FTE. The legislature replaced it with the Swan River Boot Camp run by the Department of Corrections (53-30-401 through 403, MCA). The boot camp at the Swan River state forest is being discontinued by the Department of Corrections. If this proposal is approved, the legislature should restrict the appropriations in case the department leases the property during the 1999 biennium. The executive funds this proposal with interest and income money from land trusts, including the common school trust. See the Common School Trust Constitutional Issues in the "Program Issues" section. If this funding is contingent on passage of companion legislation (LC175 and LC 232), language should be inserted in HB 2 to that effect.**

2) Water Rights Claims - The executive recommends $71,100 state special revenue in fiscal 1998 for the filing of late claims for water rights on trust lands in accordance with 36.12.1101 ARM and 85-2-225, MCA. The filing fee cost of $71,100 consists of 500 claims x $150 per claim which is a one-time cost due and payable by July 30, 1997. Funding is contingent upon legislation to fund trust land administration from trust land revenues.

LFD Issue - **If approved, the legislature may want to restrict the appropriations and designate them as one-time-only. The executive funds this proposal with interest and income money from land trusts, including the common school trust. See the Common School Trust Constitutional Issues in the "Program Issues" section. If this funding is contingent on passage of companion legislation (LC175 and LC232), language should be**

inserted in HB 2 to that effect. The department actually filed 474 claims in fiscal 1996. A processing fee of $150 for each claim is charged, for a total of $71,100. The legislature may want to ask the department why there were 474 late claims.

3) Environmental Liability - The executive recommends $35,000 state special revenue in fiscal 1998 and 1999 to inventory state trust lands for environmental liability. Two hazardous waste sites on state trust land have been identified as needing immediate attention: at Anaconda across from the old smelter and the Kalispell Pole and Timber site. This recommendation is to contract with hazardous waste specialists to inventory trust lands across the state to determine the number and location of other such sites and then to determine the appropriate measures that may be required. Funding is contingent upon legislation to fund trust land administration from trust land revenues.

If approved, the legislature may want to restrict the appropriations and designate them as one-time-only. The executive funds this proposal with interest and income money from land trusts, including the common school trust. See the Common School Trust Constitutional Issues issue in "Program Issues" section. If this funding is contingent on passage of companion legislation (LC175 and LC232), language should be inserted in HB 2 to that effect. The agency is not a potentially responsible party at the two sites. The agency recognizes the expertise in the Department of Environmental Quality (DEQ) for the purpose of this proposal and will utilize it to the extent possible. In a related matter, the division is requesting RIT grants (through the Long-range Planning Subcommittee) to remediate hazardous wastes at the Reliance Oil Refinery in Kalispell. Possible funding alternatives for this new proposal are RIT funds or the environmental contingency fund (which is statutorily appropriated upon authorization of the governor to meet unanticipated public needs of an environmental nature).

Program Issues

Common School Trust Constitutional Issues

The common school trust is guaranteed by the constitution against loss or diversion. The constitution also allows the interest and income from the trust to be used for two purposes: 1) support of elementary and secondary school districts; and 2) deposit to the common school trust. The constitution (Article X, Section 5) states:

" (1) Ninety-five percent of all the interest received on the public school fund and ninety-five percent of all rent received from the leasing of school lands and all other income from the public school fund shall be equitably apportioned annually to public elementary and secondary school districts as provided by law.
(2) The remaining five percent of all interest received on the public school fund, and the remaining five percent of all rent received from the leasing of school lands and all other income from the public school fund shall annually be added to the public school fund and become and forever remain an inseparable and inviolable part thereof." (emphasis added)

The constitution provides that 95 percent of all interest and income from the common school trust must be used for the support of public schools and the other 5 percent of all interest and income must be deposited in the trust. In the 1991 session, the executive had a proposal to use income from all land trusts to pay trust management costs. The 1991 legislature did not approve the proposal because of constitutional issues raised with the common school trust. The executive is offering a similar proposal to the 1997 legislature. This proposal, which would divert interest and income from the common school trust, raises the same constitutional issues. In 1990, the Code Commissioner determined that, "The State of Montana as trustee for trust lands may recover the costs of administering the trust from the interest generated by the trust lands

except as provided in Article X, section 5, of the Montana Constitution". The Code Commissioner recommends that, in order to forestall a potential constitutional challenge, revenue from the common school trust not be diverted.

The constitutional protection provided the common school trust brings to light the following three related issues in the Executive Budget.

Issue 1- Trust Land Management New Proposal Funding

The executive is proposing to fund three new proposals totaling $259,225 over the biennium from trust land income, including the common school trust. Of the amount requested, about $241,310 would come from common school trust interest and income. The money is to be used for: 1) Swan boot camp maintenance; 2) late water rights filing fees; and 3) hazardous waste inventory on state lands. Currently, general fund provides funding for trust land management activities. The use of trust income to fund program costs is a major change in policy. Use of income from the common school trust for uses other than those stipulated in the constitution may cause a constitutional challenge.

Policy Issue - Should the legislature use trust land income from the common school and other trusts to fund the executive new proposals?

Legislative Options

1) Submit a constitutional amendment to the voters allowing common school trust income to be used for trust management. Approve the request to fund the new proposals from trust land income from all trusts, contingent on passage of the constitutional amendment.

2) Approve funding the new proposals with trust land income from all but the common school trust. This option would reduce receipts to trust beneficiaries by $156,725 in fiscal 1998 and $102,500 in fiscal 1999.

3) Do not approve the request.

Issue 2 - Division Funding Switch Legislation

In addition to funding new proposals with trust land income, the executive is proposing major legislation to allow the use of trust land income for trust management purposes (LC175). If passed as introduced, state special revenue would be available to replace general fund budgeted for the Trust Land Management Division in HB 2 ($2,972,646 in fiscal 1998 and $2,988,013 in fiscal 1999). The state special revenue would come from interest and income from the ten permanent trust funds administered by DNRC, including the common school trust. Table 5 shows these ten trusts and the amount of fiscal 1996 distributable income. Trust beneficiaries would receive less money. Since most of the income is generated by the common school trust (about 94 percent), most of the money would come at the expense of public schools. In nine of the ten trusts, interest and income revenue is distributed 97.5 percent to trust beneficiaries. For the common school trust, the constitution directs that 95 percent of all interest and income be used for the support of public schools. The other 5 percent must be deposited back to the common school trust.

Table 5 also shows that of the $54.2 million of distributable revenue in fiscal 1996, only $3.5 million or 6.5 percent is not from the common school trust. If only revenue from the other trusts is considered for the funding switch (in order to avert a constitutional challenge), only about $500,000 would be available for yearly distribution since the remainder would be needed to switch with the $3.0 million general fund expenditures in the division.

Table 5
Department of Natural Resources and Conservation
Permanent Trusts Distributable Interest & Income

Trust	Fiscal 1996 Income	Pecent of Total	Cummulative
Common Schools	$50,664,389	93.52%	$54,175,688
Capitol Building	610,531	1.13%	3,511,299
MSU Permanent	615,217	1.14%	2,900,769
MT Tech	584,462	1.08%	2,285,552
Normal College	500,305	0.92%	1,701,089
Pine Hills School	379,107	0.70%	1,200,784
Morrill Permanent	348,723	0.64%	821,677
Deaf & Blind Permanent	236,625	0.44%	472,954
University Permanent	228,171	0.42%	236,329
Veterans Home	8,158	0.02%	8,158
Total All Trusts	54,175,688	100.00%	

Policy Issue - Should the legislature divert income from the common school and other trusts to fund trust management costs?

Legislative Options

1) Submit a constitutional amendment to the voters allowing common school trust income to be used for trust management. Approve LC175 to fund trust management with income from all trusts, contingent on passage of the constitutional amendment. Reduce general fund in the Trust Land Management Division by $2,972,646 in fiscal 1998 and $2,988,013 in fiscal 1999 and increase state special by like amounts, contingent on passage of the constitutional amendment.

2) Do not approve legislation diverting income from all land trusts.

Policy Issue - Should the legislature divert income from all trusts except the common school trust to fund trust management costs?

Legislative Options

1) Approve legislation diverting income from all trusts except the common school trust. Income currently received by trust beneficiaries would be reduced to about $500,000 if the entire general fund replacement proposed by the executive is approved. Reduce general fund in the Trust Land Management Division by $2,972,646 in fiscal 1998 and $2,988,013 in fiscal 1999 and increase state special by like amounts.

2) Do not approve legislation diverting income from any land trust.

Issue 3 -Existing Diversions of Common School Trust Income

In two cases, statute currently allows the department to receive and spend income from the land trusts, including the common school trust. They are:

1) a portion of timber sale revenue (equal to the amount appropriated by the legislature) from the common school trust is deposited in the State Timber Sale account and spent to document and prepare

timber sales (77-1-613, MCA); and

2) 2.5 percent of income from all land trusts (excluding timber sale revenue from the common school trust) is deposited in the Resource Development account and spent to improve and develop the land (77-1-607, MCA).

Table 6 shows the amounts requested of this revenue in the Executive Budget from the common school and all other land trusts. Of these amounts, $60,077 in fiscal 1998 and $61,699 in fiscal 1999 of resource development funds are requested in the Centralized Services Division. In addition, the department plans to introduce LC232 to increase the percentage diversion from 2.5 percent to 3.0 percent if LC175 is unsuccessful.

Table 6
Trust Land Income
Requested in the Executive Budget

	Fiscal 1998	Fiscal 1999
Common School Trust		
State Timber Sale	$1,301,830	$1,299,517
Resource Development	424,031	423,940
New Proposals	145,894	95,416
Subtotal	$1,871,754	$1,818,874
All Other Land Trusts		
Resource Development	$31,480	$31,474
New Proposals	10,831	7,084
State Timber Sale	0	0
Subtotal	$42,312	$38,557
Total	$1,914,066	$1,857,431

Policy Issue - To the extent that diversions of land trust income to the Resource Development account and the State Timber Sale account include income from the common school trust, the diversion may be unconstitutional. To forestall a potential constitutional challenge, the legislature may want to consider eliminating the diversion from the common school trust and remove the funding in the executive request from this source. Because the money will then become common school trust income, it will be distributed 95 percent to the general fund for public school use and 5 percent to the trust.

Since more general fund will become available for schools, a portion of the other general fund that subsidizes schools (to meet all statutory funding level requirements) will become available for other uses. That amount will be available to fund the division in place of common school trust income.

Legislative Options

1) Do not fund trust management costs with common school trust income;

A) introduce a committee bill to change statute to exclude common school trust timber sale revenue and other income from diversion; and

B) contingent on passage of the bill, decrease state special revenue by the amounts shown in Table 6 under "Common School Trust" and increase general fund. These changes would also affect Centralized Services Division. Because every $1.00 decrease in state special revenue results in $0.95 to the general fund (the nickel goes to the trust), two available options are shown in Table 7. These are:

a) Program Remains Whole - decrease state special revenue by $1,871,754 in fiscal 1998 and $1,818,874 in fiscal 1999 and increase general fund by the same amount. This will

result in a net loss to the general fund of $93,588 in fiscal 1998 and $90,944 in fiscal 1999 (these amounts will go to the common school trust); and

b) General Fund Remains Whole - since general fund only receives 95 percent of the money, decrease state special revenue by $1,871,754 in fiscal 1998 and $1,818,874 in fiscal 1999 and increase general fund by 95 percent of this amount. This results in a program reduction of $93,588 in fiscal 1998 and $90,944 in fiscal 1999 (these amounts will go to the common school trust).

2) Approve the funding with common school trust income as requested by the executive.

Table 7
Trust Land Management Division
Funding Options

	Option A Program Remains Whole		Option B General Fund Remains Whole	
	Fiscal 1998	Fiscal 1999	Fiscal 1998	Fiscal 1999
Program Effect				
Decrease State Special	($1,871,754)	($1,818,874)	($1,871,754)	($1,818,874)
Increase General Fund	1,871,754	1,818,874	1,778,167	1,727,930
Total Effect	$0	$0	($93,588)	($90,944)
General Fund Effect				
Fund Program	($1,871,754)	($1,818,874)	($1,778,167)	($1,727,930)
95% of State Special	1,778,167	1,727,930	1,778,167	1,727,930
Total Effect	($93,588)	($90,944)	$0	$0
School Trust Effect				
5% of State Special	$93,588	$90,944	$93,588	$90,944

Ulm Pishkun - The department manages 480 acres of school trust land at Ulm Pishkun. In 1971, the Department of Fish, Wildlife, and Parks purchased an easement to 170 of the acres for $5,000 (see a related issue in the Parks Division). The FWP has received Land Board approval to purchase an additional 1,232 acres of land at the site and legislative approval to build a visitor's center. In addition, if the Turner land exchange is approved by the Land Board in its current form, DNRC will receive an additional 1,058 acres of school trust land at the site.

Legislative Options

1) The legislature may want to ask DNRC if the FWP expansion at the state park and the building of the visitor's center change the value of FWP's easement. If so, could additional payments for the easement be obtained for deposit to the school trust?

2) The legislature may want to ask DNRC if any discussions have been held with FWP about expanding the current easement or negotiating a trade to include all or a part of the 1,052 acres connected with the Turner land exchange. If so, how much additional revenue would be deposited to the school trust?

3) See a related issue in the Parks Division in the FWP section. In consideration of operation and maintenance costs, does the legislature want DNRC and FWP to expand the Ulm Pishkun State Park?

Department of Natural Resources & Conservation | **Centralized Services**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	44.00	(5.00)	1.00	40.00	(5.00)	1.00	40.00	40.00
Personal Services	1,636,093	(208,502)	45,687	1,473,278	(204,701)	45,696	1,477,088	2,950,366
Operating Expenses	749,860	(345,569)	0	404,291	(344,683)	0	405,177	809,468
Equipment	14,506	11,376	0	25,882	11,376	0	25,882	51,764
Grants	496,594	0	0	496,594	0	0	496,594	993,188
Debt Service	9,013	(1,250)	0	7,763	(9,013)	0	0	7,763
Total Costs	$2,906,066	($543,945)	$45,687	$2,407,808	($547,021)	$45,696	$2,404,741	$4,812,549
General Fund	2,269,152	(557,829)	33,808	1,745,132	(551,134)	33,815	1,751,833	3,496,964
State/Other Special	615,026	(22,220)	11,422	604,227	(22,071)	11,424	604,379	1,208,607
Federal Special	21,888	36,104	457	58,449	26,184	457	48,529	106,978
Total Funds	$2,906,066	($543,945)	$45,687	$2,407,808	($547,021)	$45,696	$2,404,741	$4,812,549

Program Description

The Centralized Services Division provides managerial and administrative support services to the department through: 1) the Director's Office, which includes the director, legal staff, and public information; and 2), manages all financial activities, coordinates information systems, produces publications and graphic materials, and performs general administrative support services. Support services include fiscal affairs, data processing, personnel, legal, reception, and mail. Responsibilities include trust revenue collection and distribution; and maintenance of ownership records for trust and non-trust state-owned land.

The division work is mandated in Title 2, Chapter 15, and Title 77, Chapter 1, MCA.

Funding

The Centralized Services program is funded with general fund, RIT funds, resource development funds, coal severance taxes, and federal indirect grant reimbursements (Table 8).

The Executive Budget funds this program 72.7 percent with general fund. The request includes $496,594 general fund each year for payments of foregone property tax revenue to 20 counties where state land is in excess of 6 percent of the county. The balance of the general fund provides administrative support for other program activity. The executive use of state special revenue funding primarily consists of RIT money which funds 18.3 percent of the total request. The resource development fund, which receives 2.5 percent of the interest and income generated by the common school trust (except timber sale revenue) finances: 1) the state trust land marketing system; 2) one-half of the yearly travel costs of the oil and gas royalty auditor; and 3) a portion of the travel expenses for the fiscal specialist in the Trust Land Administration Division, which performs royalty audit duties. These funds no longer support 1.0 FTE and expenses for a royalty auditor in the Department of Revenue. Other state special revenues come from oil and natural gas taxes and permits, coal severance taxes, and water rights filing fees. Federal revenue consists of federal indirect grant reimbursements.

Table 8
Centralized Services Executive Funding
1999 Biennium

Funding Source	Fiscal 1998	Fiscal 1999
General Fund	$1,745,131	$1,751,833
State Special Revenue		
RIT Renewable Resources	$324,502	$324,840
RIT Reclamation & Development	114,468	115,828
State Lands Resource Development	60,077	61,699
Oil & Gas Funds	55,149	54,886
Water Rights Appropriation Funds	22,931	22,901
Rangeland Improvement Loans	15,730	15,709
Coal Severance Taxes	4,738	4,732
Water Well Contractors Fees	4,738	3,785
Water Adjudication Funds	1,895	
Subtotal	$604,228	$604,380
Federal Funds		
Indirect Cost Recovery Funds	$58,449	$48,529
Total Funds	$2,407,808	$2,404,742

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5706 21
Department of Natural Resources & Conservation — Present Law Adjustments/Issues
Centralized Services

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(208,502)	(204,701)
02		Inflation/Deflation	(18,575)	(24,678)
03		Fixed Costs	(284,506)	(284,596)
		Total Statewide Adjustments	($511,583)	($513,975)
Significant Present Law Adjustments				
04	91058	Operating Adjustments	(41,008)	(41,536)
05	91060	Replacement Equipment	11,376	11,376
		Total Significant PL Adjustments	($29,632)	($30,160)
Other Base Adjustments			($2,730)	($2,886)
		Grand Total Present Law Adjustments	($543,945)	($547,021)

LFD Issue **- Personal Services - Base expenditures include 6.0 FTE that the department moved elsewhere. Savings in FTE due to SB 234 reduce FTE in the Forestry Division. The department transferred 5.0 FTE from Centralized Services to Forestry to mediate the reduction. A net 1.0 FTE was also transferred to the Department of Environmental Quality to better align the split of duties between the two departments after reorganization. The personal services expenses for the 5.0 FTE are budgeted in the Forestry Division for the 1999 biennium.**

LFD Comment **- Fixed Costs - Reductions occur primarily because rental costs decreased due to reorganization. However, rental costs increase substantially in other programs.**

4) Operating Adjustments - Due to reorganization adjustments, there is a net reduction of $10,536 each year in consultant and professional services, data processing supplies, storage, temporary services, maintenance costs, relocation, and general adjustments. Present law is reduced by $1,250 in fiscal 1998 and $9,013 in fiscal 1999 as the principal and interest payment for computer equipment expires in fiscal 1998. This request increases operating costs $6,768 in fiscal 1998 and $8,284 in fiscal 1999 for janitorial services, computer system enhancements, and utilities. Rent for the USF&G building is based on contract and is allocated among programs. Rent costs decrease $1,825 for fiscal 1998 and increase $3,894 for fiscal 1999 from the 1996 actual expenditures. Total net operating adjustments are as shown on the table.

5) Replacement Equipment - The division request is for $25,882 each year of the 1999 biennium to replace existing computers and software. Equipment expenditures in fiscal 1996 were $14,506 and this recommendation reflects a net increase of $11,376.

5706 21
Department of Natural Resources & Conservation — Centralized Services
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Personnel Officer From Hb576	1.00	33,808	11,879	45,687	1.00	33,815	11,881	45,696
Total For New Proposals	1.00	$33,808	$11,879	$45,687	1.00	$33,815	$11,881	$45,696

Executive New Proposals

1) Personnel Officer From HB 576 - A personnel officer position was transferred from the Department of Environmental Quality funded with proprietary funds as adopted in HB 576. The position was transferred to the DNRC and funded 74 percent general fund, 25 percent state special revenue, and 1 percent federal funds. The new proposal will continue to fund the position consistent with the base percentages for a total of $45,687 in fiscal 1998 and $45,696 in fiscal 1999. As intended by the reorganization statute passed in the 1995 legislative session, the position remains in the DNRC.

LFD Comment **- This 1.0 FTE position was moved from DEQ where it was funded with proprietary funds, a non-budgeted fund. The executive proposes to switch the funding to general fund, state special, and federal funds which are budgeted funds. Because the position had been funded with proprietary funds in DEQ, other programs in that department that had paid for the position through the indirect cost rate will no longer pay these costs. However, in the indirect cost rate, DEQ has included a new proposal for an additional 1.0FTE.**

Program Issues

Coal Tax

The executive is requesting $4,738 in fiscal 1998 and $4,732 in fiscal 1999 in the Centralized Services Division from coal severance tax revenue. The executive is also requesting $681,402 in fiscal 1998 and $677,477 in fiscal 1999 in the Conservation and Resource Development Division. Statute 15-35-108, MCA, allocates 8.36 percent of the money for five uses, one of which is for conservation districts. The legislature may allocate available

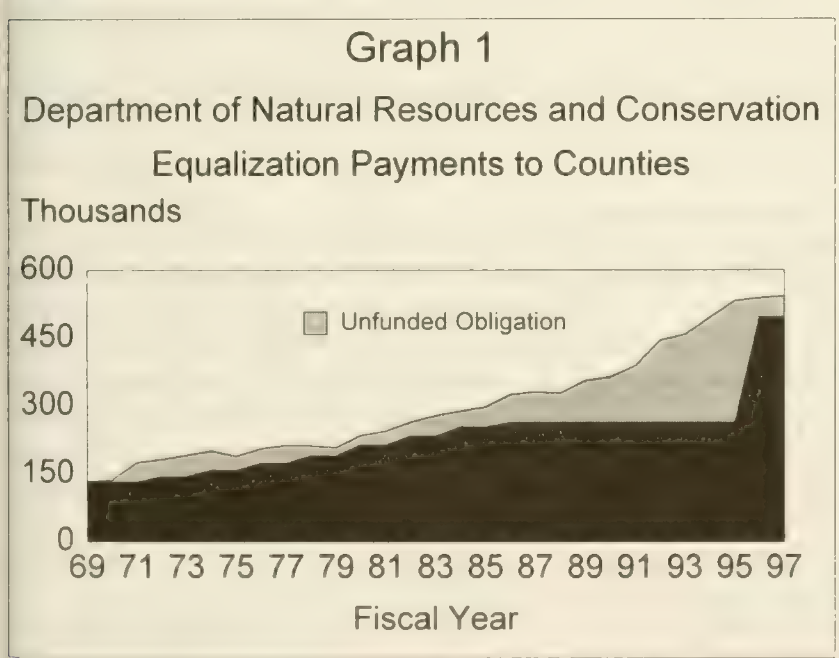
revenue among the five uses. See the LFD Combined Coal Severance Tax Account issue in the "Agency Issues" section.

Section 76-15-530, MCA, states that the department shall administer the appropriations by the legislature for conservation districts and that "The money must be distributed to the conservation districts on the basis of need." If the legislature interprets this statute to mean that all the appropriated coal severance tax revenue is to be distributed as grants to conservation districts, then the executive request to fund a portion of this division with that source of funds should not be approved or an alternative source should be found.

State Lands Equalization Payments

The executive requests $496,594 general fund each fiscal year for state land equalization payments in the 20 counties where state land is in excess of six percent of the county area. For fiscal 1997, the statutorily required amount is $543,093. However, only $496,594 was appropriated. Section 77-1-501 through 77-1-506, MCA, provides a formula for computing the amount of payment and requires the state to issue a general fund warrant for the payment before December of each year. Because variables in the formula may change year from year (such as mill levies), the required amount has increased in all but four of the 29 years the payment has existed. The executive's request is based on the amount that was required in fiscal 1994.

When the legislature meets to set the budget, the amounts of the statutorily required payments for fiscal years 1998 and 1999 will be uncertain. In the past, the amount has always been estimated. Since fiscal 1970, the amount appropriated has been less than the required amount (Graph 1).



Policy Issue - Should the legislature fund state equalization payments in the amounts required by statute?

Legislative Options

1) Fund state land equalization payments for each year of the 1999 biennium in the amounts requested by the executive ($496,594).

2) Fund state land equalization payments for each year of the 1999 biennium in the amount requested by the counties for fiscal 1997 ($543,093 each year).

3) Introduce a committee bill statutorily appropriating general fund in the amount necessary to satisfy the requirements of Title 77, Chapter 1, Part 5. Remove the general fund requested for state land equalization payments from DNRC's budget. This option would ensure that the full amount of the statutorily required payment will be paid.

4) Introduce a committee bill to change the statutory formula so less general fund is required.

Common School Trust Constitutional Issue

This division is funded partly from the resource development account, an account that receives revenue from land trust income, including the common school trust. For a discussion of possible constitutional issues raised with the use of this money to fund this and other divisions, see the "Program Issue" section in the Trust Land Management Division.

5706 22 Department of Natural Resources & Conservation Program Proposed Budget				Oil & Gas Conservation Division				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	17.50	0.00	3.00	20.50	0.00	4.00	21.50	20.50
Personal Services	502,628	217,465	92,140	812,233	219,086	122,853	844,567	1,656,800
Operating Expenses	264,464	95,816	0	360,280	95,994	0	360,458	720,738
Equipment	28,022	21,554	0	49,576	8,851	0	36,873	86,449
Debt Service	654	(595)	0	59	(654)	0	0	59
Total Costs	$795,768	$334,240	$92,140	$1,222,148	$323,277	$122,853	$1,241,898	$2,464,046
State/Other Special	795,768	334,240	92,140	1,222,148	323,277	122,853	1,241,898	2,464,046
Total Funds	$795,768	$334,240	$92,140	$1,222,148	$323,277	$122,853	$1,241,898	$2,464,046

Program Description

The Oil and Gas Conservation Division administers the Montana oil and gas conservation laws to promote conservation and prevent waste in the recovery of these resources through regulation of exploration and production of oil and gas. To meet this goal, the division: 1) issues drilling permits; 2) classifies wells; 3) establishes well spacing units and pooling orders; 4) inspects drilling, production, and seismic operations; 5) investigates complaints; 6) does engineering studies; 7) determines incremental production for enhanced recovery and horizontal wells to implement the tax incentive program for those projects, 8) operates the underground injection control program, 9) plugs orphan wells and 10) collects and maintains complete well data and production information.

The powers and duties of the Board of Oil and Gas Conservation are mandated in 82-11-111, MCA.

Funding

The state special revenue that funds this program comes primarily from oil and gas well taxes (96.4 percent). By statute (15-36-324, MCA), 1.7888 percent of oil production taxes and 0.6278 percent of natural gas taxes are deposited to the account for the board's use. The executive anticipates federal funds for the underground injection control program.

5706 22 Department of Natural Resources & Conservation Oil & Gas Conservation Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	206,192	207,813
02		Inflation/Deflation	(3,624)	(4,624)
03		Fixed Costs	7,594	7,541
		Total Statewide Adjustments	$210,162	$210,730
Significant Present Law Adjustments				
04	91050	Regulation Adjustments	14,167	14,377
05	91051	Primacy Achievement	84,653	85,332
06	91052	Equipment Replacement	21,554	8,851
		Total Significant PL Adjustments	$120,374	$108,560
Other Base Adjustments			$3,704	$3,987
		Grand Total Present Law Adjustments	$334,240	$323,277

Executive Present Law

LFD Comment **- The executive funds all present law adjustments with oil and gas tax money. Federal funding may be available for operating costs of the program requested in present law (adjustment number 5). See the LFD issue in the "Program Issue" section.**

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - The increase reflects standard statewide adjustments to the personal services including classification adjustments for engineers.

LFD Issue - The 1995 legislature eliminated 4.0 FTE associated with the injection control program, but appropriated $225,000 each year of the 1997 biennium for contracted services (see present law adjustment number 5). Although the executive is requesting a new proposal (see the LFD issue) to reinstate the funding for the FTE, $98,806 each fiscal year has also been included in present law for their salaries. Since there are no FTE associated with this money, this increase should be eliminated and the FTE funded only through the new proposal. In addition, part of the increase is due to salary increases for two exempt positions totaling $6,500 in fiscal 1998 and $8,164 in fiscal 1999.

The 1995 legislature over funded personal services in this division. Although it funded 18.0 FTE, the department transferred 0.50 FTE to the Central Management Division. Of the remaining 17.50 FTE, the program had 2.42 FTE vacant during fiscal 1996. The legislature may want to question the necessity of funding these FTE if they are not being used to fund present law activities.

4) Regulation Adjustments - As a result of reorganization, the division moved from a state-owned building to a privately-owned building. Thus rent, utilities, and janitorial costs increase $4,792 in fiscal 1998 and $5,082 in fiscal 1999. Overtime and per diem costs increase $8,143 each year due to compliance with FLSA regulations and additional board meetings. The estimated replacement of the heating /cooling plant at the Billings office is $1,600. As this is an agency owned building, there is additional $683 contingent repair funds available in fiscal 1998. Although only $217 was expended in fiscal 1996, over $1,144 in maintenance costs have been incurred in the first two months of fiscal 1997 so there is $2,283 budgeted for fiscal 1999. Other costs such as relocation and lease expenditures decrease by $1,110 each year of the 1999 biennium. Funding is from state special revenue.

5) Primacy Achievement - The Board of Oil and Gas has been granted primacy of the Underground Injection Control Program. The start-up budget was approved in prior biennia and $100,575 was spent for consulting services and printing in fiscal 1996. The personal services costs for 4.00 FTE are reflected in the new proposal. Additional operating costs are $84,653 in fiscal 1998 and $85,332 in fiscal 1999. Funding will be from the special revenue account. The board also has applied for a federal grant through the EPA and a portion of the program may be funded through federal funds.

LFD Issue - These present law increases should be approved only if the new proposal is approved.

6) Equipment Replacement - Fiscal 1996 expenditures were $28,022. The Oil and Gas Regulation Program equipment replacement includes: two 4X4 vehicles, office furniture, a fax machine, and personal computers for $20,728. Fiscal 1999 equipment for $8,814 includes one replacement field vehicle, photocopy machine, and three personal computers. The executive equipment recommendation for the UIC program is $28,848 in fiscal 1998 and $28,059 in fiscal 1999. Net increases are $21,554 in fiscal 1998 and $8,851 in fiscal 1999. All equipment expenditures will be funded by state special revenue. The board has applied for federal EPA grant funds for the UIC program, so there is a possibility of some federal funding.

5706 22

Department of Natural Resources & Conservation **Oil & Gas Conservation Division**

Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Fte For Underground Injection Control	3.00		92,140	92,140	4.00		122,853	122,853
	Total For New Proposals	3.00		$92,140	$92,140	4.00		$122,853	$122,853

Executive New Proposals

1) FTE for Underground Injection Control - The Board of Oil and Gas has been approved recently for federal primacy of this program. The legislature first approved a conditional budget increase for this purpose during the 1989 session. This new proposal adds 3.00 FTE at a cost of $92,140 in fiscal 1998 and 4.00 FTE and $122,853 in fiscal 1999 to implement the approved plan. The operating costs are contained in Present Law Adjustment No. 5.

LFD Issue **- The new proposal funds the 4.0 FTE removed by the 1995 legislature. The 1995 legislature only appropriated operating funds for the program, of which $100,575 state special revenue from oil and gas taxes was spent in fiscal 1996. The legislature appropriated $220,000 federal funds if they became available. The 1995 legislature also appropriated an additional $112,877 federal funds to hire a program manager if federal funds became available. No federal funds were spent in fiscal 1996. Although the UIC is a federally delegated program, the executive is not funding present law costs or this new proposal with federal funds. If federal funds become available, the state may be eligible for up to $220,000 in the 1999 biennium. This amount is being requested as a language appropriation. The executive total state special revenue request for this activity (present law and new proposal) is $783,740 over the 1999 biennium. This amount should be reduced by the amount of anticipated federal funds.**

As of November 13, 1996, the agency still had not received final confirmation of primacy delegation. However, the department has requested a $110,000 budget amendment in fiscal 1997 for federal funds for the UIC program. The board is proposing new rules to require individual bonds or EPA bonds. The legislature may want to ask the department: 1) why the state should seek primacy; 2) its assessment of the risk of underground water pollution from the program; and 3) if bonding requirements provide adequate protection.

The executive expects the program to be self-supporting from operator fees (82-11-137, MCA). The board may set the annual operating fee for each injection well up to $300. By statute, the money is to be used to defray the expenses of operating and enforcing the injection well regulatory program. By rule, the board has set the fee at $200. The collection of these fees began in fiscal 1997 when, as of December 1996, $174,895 had been collected from the 1,028 wells. However, the account used by the executive to fund this proposal currently receives much of its revenue from oil and gas taxes (96.4 percent). By statute (15-36-324, MCA), 1.7888 percent of oil production taxes and 0.6278 percent of natural gas taxes are deposited to the account for the board's use. If the proposal is approved and adequate operating fee revenue is not generated, oil and gas taxes may be used to fund this new program at the expense of present law duties the division funds from this same source.

Legislative Options

1) Approve the new proposal. Restrict the appropriations in HB 2. Direct the agency, through language in HB 2, to deposit operator fees collected under 82-11-137, MCA, into a separate account. Allow the agency to switch the state special revenue appropriations to federal appropriations if federal funds become available. Direct the agency, through language in HB 2, to pay UIC program costs (both present law and this new proposal) only from operator fees, less federal funds if any.

2) Approve the new proposal. Fund the entire request with federal funds rather than state special revenue.

3) Do not approve the new proposal.

An alternative funding source exists. The board may set a privilege and license tax up to 0.3 percent of the market value of each barrel of crude petroleum and for each 10,000 cubic feet of natural gas produced in the state (82-11-131, MCA). The money is to be used to defray the operation and enforcement expenses of the board, which would include this new program. In fiscal 1996, $3,029 of this revenue was collected.

Legislative Options

1) Approve the new proposal. Restrict the appropriations in HB 2. Direct the agency through language in HB 2 to deposit money collected under 82-11-131 and 137, MCA, into a separate account. Allow the agency to switch the state special revenue appropriation to federal appropriation if federal funds become available. Direct the agency through language in HB 2 to pay UIC program costs (both present law and this new proposal) from this revenue, less federal funds if any.

2) Do not approve the new proposal.

Executive Language Recommendation

The following language is recommended for the Board of Oil and Gas Conservation in HB 2:

"The board of oil and gas conservation is appropriated up to $110,000 of federal revenue funds each year, contingent upon receiving federal funds from the environmental protection agency for the underground injection control program."

Please reference the department-wide issue on language appropriations in general. Other options are given to the legislature on methods available to address this issue in the "Program Issue" section below and in the above analysis of the new proposal.

Program Issues

Underground Injection Control

The executive states primacy has been received for the underground injection control program and that federal funds may become available. When the state assumes responsibility for a federal program, the state

has "primacy" and the federal government provides partial funding. However, the executive is requesting all anticipated federal funds ($110,000 per year) as a language appropriation. A language appropriation is unnecessary since state special revenue appropriations are already being requested to fund the Executive Budget-- present law and present law adjustments provide the operating costs and the new proposal requests funding for the FTE. Instead, the legislature should consider the following options: 1) provide language allowing the program to reduce state special revenue and increase federal funds by the amount of federal funds received; 2) reduce state special revenue requested by the executive and replace it with federal funds; 3) reduce state special revenue by the amount of federal funds expected (federal funds could be budget amended if received); and 4) restrict the appropriations for this program.

5706 23

Department of Natural Resources & Conservation — **Conservation & Resource Development Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	18.50	0.00	0.00	18.50	0.00	0.00	18.50	18.50
Personal Services	645,642	64,665	0	710,307	66,506	0	712,148	1,422,455
Operating Expenses	356,236	81,979	0	438,215	86,522	0	442,758	880,973
Equipment	37,931	(1,996)	0	35,935	(13,000)	0	24,931	60,866
Local Assistance	125,000	0	0	125,000	0	0	125,000	250,000
Grants	299,840	296,160	0	596,000	296,160	0	596,000	1,192,000
Debt Service	3,362	0	0	3,362	0	0	3,362	6,724
Total Costs	$1,468,011	$440,808	$0	$1,908,819	$436,188	$0	$1,904,199	$3,813,018
General Fund	115,085	(25,979)	0	89,106	(27,084)	0	88,001	177,107
State/Other Special	1,280,397	444,118	0	1,724,515	433,361	0	1,713,758	3,438,273
Federal Special	72,529	22,669	0	95,198	29,911	0	102,440	197,638
Total Funds	$1,468,011	$440,808	$0	$1,908,819	$436,188	$0	$1,904,199	$3,813,018

Program Description

The Conservation and Resource Development Division is responsible for the administration of the Conservation District Act, State Grazing District Act, and numerous loan and grant programs. The mission of the division is to provide technical and financial assistance to local governments, state agencies, and private citizens for the conservation, development, protection, and management of the state's natural resources. The division is focused on providing local governments needed financial and technical capacity to strengthen control and leadership on natural resource issues. The division work is mandated in Title 76, Chapters 14, 15, and 16, MCA.

Funding

The Conservation and Resource Development Division is funded with general fund, state special revenue, and federal revenue. Table 9 shows the funding sources of the division. At the request of the executive, the 1995 legislature significantly increased general fund to replace RIGWAT proceeds and RIT interest. The executive request for the 1999 biennium continues this funding. This program is primarily funded with RIT (57.7 percent) and coal severance taxes (30.4 percent).

Table 9
Conservation and Resource Development Executive Funding
1999 Biennium

Funding Source	Fiscal 1998	Fiscal 1999
General Fund	$89,106	$88,001
State Special Revenue		
Renewable Resources RIT	$636,925	$631,232
Coal Severance Taxes	581,402	577,477
Reclamation and Development RIT	466,680	463,921
Treasure State Endowment	16,514	16,812
Bond Administration	11,830	12,944
Grazing District Fees	7,272	7,581
Rangeland Improvement Loans	3,892	3,791
Subtotal	$1,724,515	$1,713,758
Federal Funds		
Wastewater Treatment Grant	$56,790	$64,535
Rural Economic Development Grant	38,408	37,905
Subtotal	$95,198	$102,440
Total	$1,908,819	$1,904,199

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Grants/Local Assistance -The Conservation Districts Bureau funds grants for local district administration which are unable to maintain an office and basic levels of service through the local mill levy. Additional funds of $25,000 each year are requested from state special revenue for the substantial increase of district requests.

5706 23
Department of Natural Resources & Conservation
Conservation & Resource Development Division

		Present Law Description	Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	63,473	65,314
02		Inflation/Deflation	1,450	922
03		Fixed Costs	12,420	12,438
		Total Statewide Adjustments	$77,343	$78,674
Significant Present Law Adjustments				
04	91053	Grants/Local Assistance	296,160	296,160
05	91054	Reorganization Adjustments	39,205	40,889
06	91055	Workload Adjustments	28,648	31,948
07	91056	Equipment Replacement	(1,996)	(13,000)
		Total Significant PL Adjustments	$362,017	$355,997
Other Base Adjustments			$1,448	$1,517
		Grand Total Present Law Adjustments	$440,808	$436,188

The Governor appointed the Resource Conservation Advisory Council and has recommended the department increase the Conservation District grant program established in 15-35-108(3), MCA. This grant program funds critical work within the districts such as riparian education, tree planting, streambank stabilization and many others. An increase of $271,160 each year is from state special revenue.

LFD Issue **- This is coal severance tax money that the legislature must allocate among the five statutory uses (see the LFD Coal Tax issue in the "Program Issues" section). In fiscal 1996, the division spent $99,840 for conservation districts. Prior allocations for conservation districts were about $85,000. The total grant request is ($571,000 each fiscal year) for: 1) conservation district projects; 2) conservation districts legal funds; 3) Streambed and Land Preservation Act (310); 4) watershed planning; and 5) the state's Environthon effort ($21,000 each fiscal year). The latter is a competitive, problem-solving natural resource event for high school students. The program has been in effect in Montana for two years and is tracked by conservation district supervisors. This program has never been funded by the legislature before. If approved, this request would also use coal taxes to fund grants funded in fiscal 1996 from other sources such as general fund and RIT. The legislature may want to ask the department what these grants are.**

5) Reorganization - As a result of reorganization and the allocation of rent and various costs from Centralized Services Division to this program, there are increased costs to the division. Rent costs increase $31,178 in fiscal 1998 and $32,508 in fiscal 1999; janitorial, utilities, and computer maintenance increase $6,835 in fiscal 1998 and $7,052 in fiscal 1999. Overtime increases $841 each year as a result of a new FMSA policy and per diem increases $350 for board member stipends. The net increase is $45,293 in fiscal 1998 and $43,110 in fiscal 1999 funded from state special revenue.

LFD Issue **- The executive funds these increases entirely with RIT money. To the extent that the division was reorganized and moved to a new building during fiscal 1996, increased expenditures for rent and other services are in the base, and should not require an additional appropriation. Also included in the base are expenditures for the actual reorganization and moving costs. Rental increases are included for potentially finding new rental space in Miles City.**

6) Workload Adjustments -As a result of the new federal Farm Bill and the federal Safe Drinking Water Act, the program has additional administrative responsibilities in contracted services with an increase of $20,697 in fiscal 1998 and $24,697 in fiscal 1999. Communication, computer supplies, and travel expenditures increase $7,951 in fiscal 1998 and $7,251 in fiscal 1999. The net increase of $28,648 in fiscal 1998 and $31,948 in fiscal 1999 is funded 72 percent federal funds and 28 percent state special revenue.

LFD Comment **- The executive partially funds these increases with RIT: $3,402 in fiscal 1998 and $4,329 in fiscal 1999.**

7) Replacement Equipment - Requested is replacement of one vehicle for $16,514, one computer for $3,000, and office equipment for $3,390 in fiscal 1998. Additional field equipment for $18,000 and computers for $7,000 is recommended in fiscal 1999. The net request is a reduction of $1,996 in fiscal 1998 and $13,000 in fiscal 1999 from the fiscal 1996 base of $17,856. Equipment is funded with state special revenue.

LFD Comment **- The executive funds these decreases entirely with RIT money.**

Executive Language Recommendation

***LFD Comment* - Please reference the department-wide issue in the "Agency Issues" section on language appropriations in general.**

The following language is recommended related to the Conservation Resource Development Division for inclusion in HB 2.

> 1) "The department is appropriated up to $700,000 per year from the account established in 76-14-112, MCA, for rangeland loans during the 1999 biennium."

***LFD Issue* - The legislature must appropriate the money for these loans because this is not an investment program. The rangeland improvement loan program was enacted by the 1983 legislature. HB 486 allocated to the account 15 percent of the total amounts of renewable resource development grants and loans (RIT) from July 1, 1983 to June 30, 1989. The 1993 legislature authorized the sale of $5.0 million in renewable resource development bonds, with debt service paid by coal severance tax proceeds. Currently, the rangeland improvement loan account receives loan repayments and interest, and fees for servicing the rangeland improvement loans. In fiscal 1996, only $20,576 was deposited in the account. In present law, the executive is requesting to spend $19,622 in fiscal 1998 and $19,499 in fiscal 1999 from this account. The account had a fiscal 1996 fund balance of $1,115,835 (cash of $552,987 and receivables of $562,927). The legislature may want to ask the department: 1) why nearly one-half of the fund assets have not been loaned; 2) the interest rates of the loans; 3) if there have been any loan defaults; and 4) why the legislature shouldn't appropriate the money directly in HB 2.**

> 2) "All funds deposited in the state special revenue account established 76-15-530, MCA, are appropriated to the department for distribution as grants to conservation districts in an amount of up to $100,000 per year for the 1999 biennium."

***LFD Issue* - There is no account established by this statute. The money the executive requests is from the 8.36 percent allocation of coal severance tax proceeds that is to be used among five uses, one of which is for conservation districts. If the legislature wants to appropriate this revenue for conservation districts grants, it should do so directly in HB 2 and restrict the appropriations only for that use. See the LFD Coal Tax issue in the "Program Issues" section and in the LFD Overview.**

> 3) "All funds held in the state special revenue account in accordance with 76-16-106(2), MCA, are appropriated to the department for administration of grazing district activities in an amount of up to $15,000 per year for the 1999 biennium."

***LFD Issue* - The money the executive is asking to spend is from fees charged to grazing districts of the state. In fiscal 1996, $10,509 was collected and the department spent $8,822. In present law, the executive is requesting $7,272 in fiscal 1998 and $7,581 in fiscal 1999. Revenue collections may be on the decline: they decreased 22.2 percent between fiscal 1995 and 1996. Since 76-16-106, MCA, allows the department to set the amount of the fee (up to $0.15 per animal unit month), there is a potential for the department to raise fees so they could use this appropriation.**

> 4) "The department is appropriated up to $400,000 for the 1999 biennium from the state special revenue account established in 85-1-604, MCA, for the purchase of prior liens on property held as loan security as required by 85-1-618, MCA."

LFD Issue - Although the language above states that the money is from the renewable resource grant and loan account, it is actually funded from the GO Bond Loan Loss Reserve debt service account on the Montana Integrated Budgeting System. Money in the debt service account is already statutorily appropriated to pay debt service costs.

As written, the above language would provide spending authority from the renewable resource grant and loan account. The primary revenue sources to this account are RIT trust interest earnings, RIGWA tax proceeds, and coal severance tax proceeds that are in excess of debt service requirements. If revenue in this account exceeds estimates, the department could use this language to establish an appropriation and spend it. This RIT account is of wide-spread interest statewide and revenue estimates and expenditures should be accurate. If the legislature wants the department to have the money for this purpose, it should appropriate the money directly in HB 2. The Executive Budget is over-appropriated by $1.8 million from this account. Approvel of this appropration, funded from the renewable resource account, would increase the potential deficit to $2.2 million.

Program Issues

General Fund

General fund decreases $25,979 in fiscal 1998 and $27,084 in fiscal 1999 from fiscal 1996 expenditures. At the request of executive, the 1995 legislature added $113,023 general fund each year of the 1997 biennium to this program for operations because of an over appropriation of RIT by the executive. Prior to the 1997 biennium, this division received no general fund support. The executive continues this practice and requests $89,106 in fiscal 1998 and $88,001 in fiscal 1999. The programs funded with RIT and general fund should be prioritized. The legislature may want to consider continued general fund support of this division in the context of total RIT availability and the demands of other programs.

Coal Tax

To partially fund the total increases in this division, the executive is requesting $481,562 in fiscal 1998 and $477,637 in fiscal 1999 in funding from coal severance tax revenue for conservation districts. In total, the executive is requesting $681,402 in fiscal 1998 and $677,477 in fiscal 1999 in this division ($100,000 each fiscal year is being requested as a language appropriation). In fiscal 1996, $99,840 was spent. Amounts are also requested in the Centralized Services Division. Statute 15-35-108 allocates 8.36 percent of the money for five uses, one of which is for conservation districts. The legislature may allocate available revenue among the five uses. See the LFD issue in the "Agency Issues" section and in the LFD Overview. If other uses have priority, reductions can be made to: 1) present law adjustment number 4; 2) base expenditures and other present law increases of $285,242 in fiscal 1998 and $281,317 in fiscal 1999; and 3) the language appropriation of $100,000 each fiscal year.

Section 76-15-530, MCA, states that the department shall administer the appropriations by the legislature for conservation districts and that "The money must be distributed to the conservation districts on the basis of need." If the legislature interprets this statute to mean that all the money appropriated is to be distributed as grants to conservation districts, it could include language in HB2 expressing that intent.

5706 24

Department of Natural Resources & Conservation — **Water Resources Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	112.50	0.00	0.00	112.50	0.00	0.00	112.50	112.50
Personal Services	4,036,180	154,094	0	4,190,274	161,667	0	4,197,847	8,388,121
Operating Expenses	1,012,338	430,127	310,000	1,752,465	480,781	0	1,493,119	3,245,584
Equipment	116,214	31,882	0	148,096	(20,850)	0	95,364	243,460
Capital Projects	5,000	(5,000)	0	0	(5,000)	0	0	0
Debt Service	66,081	152,844	0	218,925	152,915	0	218,996	437,921
Total Costs	$5,235,813	$763,947	$310,000	$6,309,760	$769,513	$0	$6,005,326	$12,315,086
General Fund	2,945,185	510,358	0	3,455,543	529,184	0	3,474,369	6,929,912
State/Other Special	2,240,074	251,270	310,000	2,801,344	238,422	0	2,478,496	5,279,840
Federal Special	50,554	2,319	0	52,873	1,907	0	52,461	105,334
Proprietary	0	0	0	0	0	0	0	0
Total Funds	$5,235,813	$763,947	$310,000	$6,309,760	$769,513	$0	$6,005,326	$12,315,086

Program Description

The Water Resources Division is responsible for many programs associated with the uses, development, and protection of Montana's water. The division also develops and recommends water policy to the director, Governor, and legislature. The division consists of an administration unit and four bureaus: Water Management Bureau, Water Rights Bureau, State Water Projects Bureau, and the Water Operations Bureau. The division work is mandated primarily in Title 85, Chapters 1, 2, 9, and 20, MCA.

Funding

The Water Resources Division is funded with general fund, state special revenue (primarily RIT sources), and a minor amount of federal funds. Table 10 shows the components of the Water Resources Division and associated funding. At the request of the executive, the 1995 legislature significantly increased general fund to replace state special revenues from RIGWAT proceeds and RIT interest. The executive request for the 1999 biennium continues this funding. This program is primarily funded with general fund (56.3 percent) and RIT (31.8 percent). The division is also funded with revenue earned from the sale of electrical power from the Broadwater dam, fees (set by the department) for providing any service connected with surface and groundwater, water right filing fees, water well drilling application fees set by the Board of Water Well Contractors, and hunting and fishing license fee money from the Department of Fish, Wildlife and Parks.

Table 10
Water Resources Executive Funding
1999 Biennium

	Fiscal 1998	Fiscal 1999
General Fund	$3,455,543	$3,474,369
State Special Revenue		
Renewable Resources RIT	$1,099,583	$799,738
Reclamation and Development RIT	1,007,291	1,013,970
Broadwater Operations & Maintenance	279,822	275,153
Water Right Appropriation	188,578	194,090
Water Adjudication Fees	94,326	72,793
Water Well Contractors	65,627	55,639
FWP General License Account	49,178	50,159
Broadwater Fisheries Mitigation	16,938	16,953
Subtotal	$2,801,343	$2,478,495
Federal Funds		
State Assistance Program	$52,284	$51,866
BOR Beaverhead Groundwater	589	595
Subtotal	$52,873	$52,461
Total	$6,309,759	$6,005,325

Executive Present Law

LFD Comment **- See the LFD General Fund issue in the "Program Issues" section concerning the general fund requested in this program.**

5706 24
Department of Natural Resources & Conservation — Present Law Adjustments/Issues
Water Resources Division

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	165,411	172,984
02		Inflation/Deflation	(16,528)	(27,039)
03		Fixed Costs	36,158	59,231
		Total Statewide Adjustments	$185,041	$205,176
Significant Present Law Adjustments				
04	91024	Equip-Pl-Hb2	48,754	(3,978)
05	91062	Reorganization Adjustments	201,658	196,135
06	91063	Administrative Adjustments	290,107	310,145
07	91064	Leased Vehicles Replacement	25,907	32,037
		Total Significant PL Adjustments	$566,426	$534,339
Other Base Adjustments			$12,480	$29,998
		Grand Total Present Law Adjustments	$763,947	$769,513

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Equip-PL-HB 2 - There was $114,972 expended in fiscal 1996 for equipment. The program is requesting $143126 in fiscal 1998

and $83,594 in fiscal 1999 for office, communications, computers, field equipment, and software. The net adjustment is an increase of $48,754 in fiscal 1998 and a reduction of $3,978 in fiscal 1999.

***LFD Comment* - These present law adjustments increase general fund in fiscal 1998 by $34,254 and reduce general fund by $3,669 in fiscal 1999.**

5) Reorganization - As a result of reorganization and particularly the move from a state to a privately-owned building, the program notes the following changes: rent and parking increase of $224,926 in fiscal 1998 and $228534 in fiscal 1999; janitorial increase of $18,028 in fiscal 1998 and $18,225 in fiscal 1999; computer related services increase of $7,462 in fiscal 1998 and decrease of $1,867 in fiscal 1999; building supplies decrease by $37,636 each year; and relocation costs decrease by $11,121 each year of the biennium. The net program increase is $201,659 in fiscal 1998 and $196,135 in fiscal 1999.

***LFD Issue* - To the extent that the division was reorganized and moved to a new building during fiscal 1996, increased expenditures for rent and other services are in the base and should not need additional funding. The executive funds these increases with general fund ($100,829 in fiscal 1998 and $98,068 in fiscal 1999) and RIT ($100,829 in fiscal 1998 and $98,067 in fiscal 1999).**

6) Administrative Adjustments - Consulting and secretarial services for work on the Broadwater Dam as required by FERC for fisheries mitigation and inspection, an increase in the co-op gaging program, as well as software development for public access to water rights data require an increase of $73,992 in fiscal 1998 and $79,510 in fiscal 1999. The Water Rights Bureau requires an increase of $3,595 in fiscal 1998 and $3,619 in fiscal 1999 for gas and minor equipment, work on adjudication reports and decrees, and implementation of new water rights policies and decrees. Postage and communications increase $19,970 in fiscal 1998 and $22,370 in fiscal 1999 for mailing of water court decrees and objection notices and new phone systems in the regional offices.

Travel increases $58,821 in fiscal 1998 and $58,730 in fiscal 1999 for additional travel required on the Tongue River project, decentralization of water rights authority, and dam safety work. As computer maintenance contracts expire next biennium, $9,602 is needed in fiscal 1998 and $10,189 in fiscal 1999 for maintenance of computers and office equipment.

The division proposes to rejoin the Western States Water Council with membership dues of $11,500 in fiscal 1998 and $23,000 in fiscal 1999. Education and training costs increase $5,813 each year for dam safety and engineering. Debt service payments on the Middle Creek loan increases $122,931 in fiscal 1998 and $123,031 in fiscal 1999. Overtime decreases $11,317, land outlay decreases $5,000, and per diem increases $200 each year. The net increase over the base is $290,107 in fiscal 1998 and $310,145 in fiscal 1999. Increases are funded with 50 percent general fund and 50 percent state special revenue.

***LFD Issue* - The executive funds these increases with general fund ($145,054 in fiscal 1998 and $155,073 in fiscal 1999) and RIT ($145,053 in fiscal 1998 and $155,072 in fiscal 1999). Debt service payments can be transferred to the debt service account without an appropriation. Expenditures from the debt service account are already statutorily appropriated.**

7) Leased Vehicle Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $30,070 in fiscal 1998 for three pickups, one van, and one utility vehicle and $12,480 in fiscal 1999 for one pickup and one utility vehicle. In addition, there is $26,390 in fiscal 1999 to continue the first year vehicles. The vehicles will be located in Billings, Havre, Lewistown, and Helena. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain reductions of $4,163 in fiscal 1998 and $6,833 in fiscal 1999 for gasoline and maintenance cost

savings. The net adjustments are $25,907 in fiscal 1998 and $32,037 in fiscal 1999. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

***LFD Comment* - The executive funds these increases with general fund ($12,954 in fiscal 1998 and $16,019 in fiscal 1999) and RIT ($12,953 in fiscal 1998 and $16,018 in fiscal 1999).**

5706 24
Department of Natural Resources & Conservation **Water Resources Division**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Water Right Sys Up-Date								
02 Rocky Boys Study			310,000	310,000				
Total For New Proposals			$310,000	$310,000				

Executive New Proposals

1) Rocky Boys Study - The Ad Hoc Coordinating Committee for the Rocky Boys/North Central Montana Regional Water Supply System has proposed to develop a regional municipal, rural, and industrial (MR&I) water system in north central Montana. The Chippewa-Cree tribe is seeking a domestic water pipeline as partial settlement of the tribe's reserved water rights. The region as a whole faces difficulty in meeting drinking water requirements. A regional MR&I system may be the most cost-effective way to ensure compliance with the requirements of the Safe Drinking Water Act. Thirty off-reservation rural and municipal water supply systems have expressed interest in participating in the study.

The currently proposed regional system would consist of a water intake and treatment system located at Tiber Reservoir (Lake Elwell) and a core pipeline from Tiber Reservoir to the Rocky Boys Reservation. The pipeline would deliver water to existing off-reservation rural and municipal water supply systems in addition to the Rocky Boys Reservation.

The next step in the development of the project is to conduct a feasibility study. Congress has appropriated $300,000 of the $380,000 estimated cost of the feasibility study. The study will begin as soon as those funds are transferred from the U.S. Environmental Protection Agency. Following completion of the feasibility study, the Ad Hoc Coordinating Committee intends to seek authorization of the project from Congress. The committee will need to obtain commitments from rural and municipal water supply systems and will need to address issues including the administrative and legal structure of the system and financial concerns.

Of the $310,000 requested, there is $270,000 to be spent at the direction of the Ad Hoc Committee in coordination with the Water Resources Division. The $270,000 would pay for the following: public involvement/coordination $80,000; obtaining authorization/appropriation from Congress $90,000; legal and financial services $20,000; and contingency funding for feasibility study $80,000.

The Ad Hoc Committee intends to seek technical and/or financial assistance from the federal government in order to complete the feasibility study prior to the next biennium. The funds for the contingency funding would be needed only if that plan is not successful and the request would be withdrawn or reduced accordingly.

The remaining $40,000 being requested by the Water Resources Division is for review of the engineering design and investigation of legal and financial issues to ensure that the project meets state regulatory requirements and to determine the appropriate state and local cost share.

LFD Issue **- The revenue to fund this proposal is derived from RIT interest and RIGWA taxes. The agency funded 1997 biennium costs for this purpose from a renewable resource grant from DNRC. Once the feasibility study is done, the costs of the project can be estimated. Congress may then be asked to authorize and provide matching funds for project construction. The state's portion of construction could possibly be funded through community development block grants, the treasure state endowment program, or the drinking water state revolving fund. This proposal funds $80,000 for the completion of the feasibility study. It also provides $80,000 for public involvement\coordination and $90,000 to lobby Congress for authorization and appropriations. The issue for consideration is: does the legislature feel these costs are appropriate to be funded with RIT? This proposal should be prioritized with other projects and programs funded from this over-appropriated revenue source (see the Resource Indemnity Trust issue in the "Agency Issues" section).**

There may be other funding alternatives: 1) The DNRC in cooperation with DEQ administers the state's Safe Drinking Water Treatment Revolving Fund Act (75-6-201 through 225, MCA). The program provides financial assistance in the form of loans and grants to public water systems through a revolving fund of state and federal money. Proposed changes in federal legislation allow this revolving fund and the waste water treatment revolving fund to be used interchangeably. The legislature may want to consider the use of money in these revolving funds as a possible alternative funding source for part of these costs; 2) Federal funds may be available from the Bureau of Reclamation or the EPA; 3) The Treasure State Endowment program was established as a state infrastructure financing program. The legislature appropriates money from the coal severance tax permanent trust to fund allowable projects such as drinking water systems; 4) $2.0 million of RIT interest each biennium is allocated for renewable resource grants to fund projects that include feasibility studies; and/or 5) The legislature may also want to ask the role of communities that would benefit from the program in assisting with the funding of the feasibility study.

Legislative Policy

The state already provides local assistance for such projects through a number of grant and loan programs. Is it the legislature's policy to provide "pre-project" funds as well?

Legislative Options

1) Approve the proposal. Restrict the appropriation in HB 2 to this purpose only. Include HB 2 language authorizing the department to transfer appropriation authority from state special revenue to federal special revenue if federal funds are received.

2) Do not approve the proposal.

Executive Language Recommendations

Please reference the department-wide issue in the "Agency Issues" section on language appropriations in general.

The following seven language recommendations are recommended for HB 2:

1) "During the 1999 biennium, up to $750,000 of funds received by the department from arbitration, litigatior awards, or settlements are authorized to be spent to pay costs, including the bond debt associated with the Broadwatei power project."

LFD Issue **- The executive funds this language appropriation from the Broadwater Operations and Maintenance account - an account set up by the 1987 coal severance tax bond issue to pay operating expenses of the project. This language is unnecessary. The agency can transfer funds to the debt service account without an appropriation. Expenditures out of the debt service account are already statutorily appropriated by the legislature. Funds received can remain in the account until the legislature appropriates them in HB 2. Appropriations to pay anticipated costs of the project should be included in the executive HB 2 request.**

2) "During the 1999 biennium, up to $50,000 of state special revenue received as lease payments for properties associated with state water projects is appropriated to the department for administering the lease program."

LFD Issue **- The executive is not requesting any funding in present law from this source of revenue. If the executive anticipates program costs, they should be included in HB 2. Fiscal 1996 revenues were $19,436.**

3) "During the 1999 biennium, up to $20,000 of interest earned on the Broadwater water users account is appropriated to the department for the purpose of repair, improvement, or rehabilitation of the Broadwater-Missouri diversion project."

LFD Issue **- The account (Broadwater Irrigation) the executive uses to fund this language appropriation has not been active since 1987. This account was required by the 1987 coal severance tax bond resolution and is to receive a portion of excess funds in the debt service account. For the past 10 years, there have been no deposits and no activity is expected in fiscal 1997.**

4) "During the 1999 biennium, up to $1,000,000 of funds currently in or to be deposited in the Broadwater replacement and renewal account are appropriated to the department for repairing or replacing equipment at the Broadwater hydropower facility or to service the Broadwater hydropower bond debt if revenue deposited in the debt service account is insufficient for this purpose."

LFD Issue **- In the Executive Budget on the Montana Integrated Budgeting System, $700,000 is actually being requested. The executive funds this language appropriation from the Broadwater Replacement and Renewal account - an account set up by the 1987 coal severance tax bond issue to pay for major equipment replacement at the project. The money the executive is requesting to spend is from the sale of electrical power generated at the Broadwater dam. In fiscal 1996, $84,000 was deposited in the account. The account had a fund balance of $460,559. The account is capped at $600,000.**

This language is unnecessary. The agency can transfer funds to the debt service account without an appropriation. Expenditures out of the debt service account are already statutorily appropriated by the legislature. Funds received can remain in the account until the legislature appropriates them in HB 2. Appropriations to pay anticipated costs of the project should be included in the executive HB 2 request.

5) "Up to $20,000 each year of fines collected under the provisions of Title 85, chapter 2, and deposited in the water right appropriations account in accordance with 85-2-318 are appropriated to the department to carry out the

enforcement functions required under 85-2-114."

LFD Issue - Title 85, Chapter 2 provides direction to the department on surface and groundwater. Section 85-2-122, MCA, provides that only fines collected by the department or a district court are to be deposited in the water right appropriation account for judicial enforcement purposes. All other fees are deposited in the county general fund. Due to declining revenues, the executive has switched funding from this account to the general fund (see the LFD Funding Switch issue in the "Program Issues" section). Since at least fiscal 1984, no fines have been deposited in the account. If fines are received, the legislature could appropriate the money in the next legislative session.

6) "Up to $20,000 each year of funds received from the bonds required by 37-43-306 are appropriated to the department for the purpose of performing remedial action on water wells, providing compensation for damages caused by water well violations, or paying administration costs incurred by the board of water well contractors."

LFD Issue - Water well contractors must provide a $4,000 bond before the department issues a license. This language is unnecessary. The legislature has already statutorily appropriated bond forfeitures to the Board of Water Well Contractors to remedy defects in water wells, compensate for damages, and pay certain administrative costs (37-43-204, MCA). However, the legislature should amend this statutory appropriation to exclude administrative costs in order to be consistent with 17-1-508(4), MCA. LC65 (a bill introduced by the Legislative Finance Committee that amends statutory appropriations) is available for this purpose.

Legislative Policy - Should statutory appropriations be used to pay administrative costs?

Legislative Options

1) Sponsor an amendment to LC65 to eliminate the statutory appropriation for Water Well Contractors administrative costs.

2) No change.

7) "During the 1999 biennium, up to $500,000 of funds currently in or to be deposited in the state project hydropower earnings account are appropriated for the purpose of repairing, improving or rehabilitating department of natural resources state water projects.

LFD Issue - Although this language is requested, no amount was requested on the Montana Integrated Budgeting System. Therefore, it is uncertain what the executive is requesting. The $500,000 is not included in the "Agency Issues" section table that addresses language appropriations. The money the executive may be requesting to spend is from the sale of electrical power at state projects. Section 85-1-220, MCA, provides that the revenue must be used to repair and rehabilitate state-owned water projects and the financing costs of them. The same revenue is also asked to be spent through a language appropriation in number 4 above. If the legislature anticipates needed expenditures for these purposes, they should be budgeted directly in HB . In fiscal 1996, this account received no direct deposit of power sale revenue and had a fund balance of 27,142. In fiscal 1997, the department received a budget amendment to spend this money.

Program Issues

General Fund

General fund increases $510,358 in fiscal 1998 and $529,184 in fiscal 1999 from fiscal 1996 expenditures (see the following issue). At the request of executive, the 1995 legislature added $344,263 general fund each year of the 1997 biennium to this program for operations because of an over-appropriation of RIT. The executive continues this use of general fund and requests a total of $3,455,543 in fiscal 1998 and $3,474,369 in fiscal 1999. The programs funded with RIT and general fund should be prioritized. The legislature may want to consider continued general fund support of this division in the context of total RIT availability and the demands of other programs.

Fee Revenue

Section 85-2-113, MCA provides the department with broad authority to "prescribe fees or service charges for any public services rendered by the department under this chapter" (Surface and Groundwater). Services included are, filing of applications, issuance of permits, rulemaking hearings, administrative hearings, investigations of permit revocation, field verification of permits, and change approvals. Under section 85-2-318, MCA, the money can be used to help administer and enforce statutes pertaining to: 1) water right claims; 2) general provisions of surface and groundwater statutes; 3) utilization of water; 4) groundwater; and 5) water well contractors. Although the department uses the revenue to fund a portion of Centralized Services and water right activities in this division, general fund and RIT are the primary funding sources. As fee revenue decreases or expenses increase, these two primary funding sources provide greater support (see the issue below). The legislature may want to ask the department if fees are being collected for the services it provides and if the fees adequately help defray department expenses.

Legislative Options

1) Reduce any general fund and RIT that fund the above services. Encourage the department to recover more of the department's expenses through its fee structure.

2) Maintain current fee structure.

Funding Switch

The executive uses the fee revenue described above primarily to fund water right activities (and a portion of Centralized Services). These activities are also supported by general fund. In fiscal 1996, revenues were $252,749 and the fund balance was $157,878. Expenditures exceeded revenues in fiscal 1996. In the Executive Budget for the 1999 biennium, expenditures also exceed revenues. Due to declining revenues and the declining fund balance, the executive has switched funding from this source to general fund. For water right activities, general fund has increased $211,608 in fiscal 1998 and $253,083 in fiscal 1999.

Legislative Options

1) Maintain general fund expenditures at fiscal 1996 levels. Reduce program expenditures accordingly or find alternative funding sources.

2) Approve the executive request to use general fund in place of fee revenue.

By statute, the department charges fees for the filing of late claims ($40 per claim with a $480 maximum per person), processing late claims ($150 per claim), and copying decrees ($20). This money is deposited in the adjudication account to pay costs of water adjudication, costs of the Reserved Water Rights Compact Commission, and costs of the water courts. The Executive Budget request for the 1999 biennium exceeds expected revenues and uses fund balance to fund increased spending for a portion of Centralized Services and water rights activities. Because of a July 1997 deadline for filing late claims, the executive estimates that no revenue will be collected in the 1999 biennium. The legislature may want to ask the department why continued funding is needed if permit activities will cease in the 1999 biennium and if the department plans to: 1) decrease program expenses in the 2001 biennium; or 2) fund program expenses with general fund or RIT.

Legislative Options

1) Reduce program expenditures in the 1999 biennium, transfer fund balance to the general fund.

2) Include language in HB 2 requiring the department to submit its budget for the 2001 biennium with fewer FTE.

3) Maintain current expenditures. General fund and RIT will replace the lost fee revenue.

5706 25 Department of Natural Resources & Conservation — Program Proposed Budget				Reserved Water Rights Compact Commission				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	11.00	0.00	0.00	11.00	0.00	0.00	11.00	11.00
Personal Services	426,262	17,810	0	444,072	18,125	0	444,387	888,459
Operating Expenses	67,573	40,781	0	108,354	42,284	0	109,857	218,211
Equipment	12,092	(992)	0	11,100	(4,592)	0	7,500	18,600
Debt Service	1,121	315	0	1,436	(1,121)	0	0	1,436
Total Costs	$507,048	$57,914	$0	$564,962	$54,696	$0	$561,744	$1,126,706
General Fund	218,310	(17,966)	0	200,344	(17,492)	0	200,818	401,162
State/Other Special	288,738	75,880	0	364,618	72,188	0	360,926	725,544
Total Funds	$507,048	$57,914	$0	$564,962	$54,696	$0	$561,744	$1,126,706

Program Description

The Reserved Water Rights Compact Commission, created by the legislature in 1979 as part of the water rights adjudication effort, is provided for in 2-15-212, MCA. The commission negotiates water rights with Indian tribes and federal agencies to establish a formal agreement (compact) on the amount of water to be allocated to each interest. The commission has completed compacts with: the National Park Service for Yellowstone Park, Glacier Park, and the Big Hole Battlefield; the Fort Peck tribe; and the Northern Cheyenne tribe. During the 1997 biennium, the commission will: 1) negotiate with the National Park Service regarding Little Bighorn Battlefield and Bighorn Canyon; 2) negotiate with the Bureau of Land Management regarding the Bear Trap Canyon section of the Madison and the Wild & Scenic River section of the Missouri 3) negotiate with the Chippewa-Cree tribe of the Rocky Boy Reservation; 3) negotiate with the Fort Belknap tribe; 4) negotiate with the Crow tribe; and 5) assist the Attorney General's office in litigation with the Blackfeet tribe. The Montana Reserved Water Rights Compact Commission was authorized under 2-15-212, MCA, and was granted authority to negotiate with tribes and federal agencies under 85-2-701, MCA et. seq.

Funding

The Reserved Water Rights Compact Commission is funded with general fund (35.6 percent) and RIT (64.4 percent). At the request of the executive, the 1995 legislature significantly increased general fund to replace state special revenues from RIGWAT proceeds and RIT interest. The executive request for the 1999 biennium continues this funding.

5706 25 Department of Natural Resources & Conservation — Reserved Water Rights Compact Commission			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	17,271	17,586
02		Inflation/Deflation	(256)	(429)
03		Fixed Costs	7,912	7,904
		Total Statewide Adjustments	$24,927	$25,061
Significant Present Law Adjustments				
04	91068	Reorganization	31,366	31,619
05	91069	Administrative Workload	2,608	2,608
06	91070	Replacement Equipment	(992)	(4,592)
		Total Significant PL Adjustments	$32,982	$29,635
Other Base Adjustments			$5	$0
		Grand Total Present Law Adjustments	$57,914	$54,696

Executive Present Law

LFD Comment **- General fund decreases $17,966 in fiscal 1998 and $17,492 in fiscal 1999 from fiscal 1996 expenditures. The 1995 legislature added $48,448 general**

fund each year of the 1997 biennium to this program for operations because of an over-allocation of RIT. The executive continues this use of general fund practice and requests $200,344 in fiscal 1998 and $200,818 in fiscal 1999. The programs funded with RIT and general fund should be prioritized. The legislature may want to consider continued general fund support of this division in the context of total RIT availability and the demands of other programs.

All significant present law adjustments in the table are funded with RIT.

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Reorganization - As a result of reorganization and allocations of fixed costs to the Reserved Water Rights Compact Commission from Centralized Services, costs such as rent, janitorial, maintenance, and utilities have increased. The increase is $33,800 in fiscal 1998 and $35,484 in fiscal 1999. One-time-only costs of $2,807 each year for relocation, supplies, system development, and phone moves are decreased. A new interpretation of the FMSA results in an increase of $63 each year. Present law also is adjusted by an increase of $310 in fiscal 1998 and decrease of $1,121 in fiscal 1999 as the principal and interest payment for computer equipment expires in fiscal 1998.

5) Administrative Workload - Contracted services increase $2,132 each year to fund an $18,000 annual retainer for a consultant in Washington D .C. to assure passage of water rights settlements. This is particularly important for the Rocky Boy North Central Montana pipeline project currently under negotiation. An increase of $476 each year of the biennium is required to fully fund per diem for the commission members.

6) Equipment Replacement - Fiscal 1996 expenditures were $12,092. The commission request includes replacement hardware for Sun workstation and processor for $4,600 in fiscal 1998 and $4,000 in fiscal 1999; computers for $5,000 in fiscal 1998 and $2,000 in fiscal 1999; and software upgrades of $1,500 each year. The net equipment request above fiscal 1996 is a reduction of $992 in fiscal 1998 and $4,592 in fiscal 1999. Funding is state special revenue.

Program Issues

Funding

By statute (85-2-225, MCA), the department charges fees for the filing of late claims ($40 per claim with a $480 maximum per person), processing late claims ($150 per claim), and copying decrees ($20). This money is deposited in the adjudication account to pay costs of water adjudication, the Reserved Water Rights Compact Commission, and the water courts. The executive does not use any of this revenue to fund the Commission, but uses it all to fund portions of the Centralized Services and Water Resources divisions. If present law adjustments funded from this source are not approved or base expenditures funded from this source are reduced in the other divisions, the money could be used to offset general fund or RIT in this division.

5706 35

Department of Natural Resources & Conservation Program Proposed Budget				Forestry Division				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	161.92	2.99	3.00	167.91	2.99	3.00	167.91	167.91
Personal Services	4,730,422	278,972	87,912	5,097,306	300,930	87,924	5,119,276	10,216,582
Operating Expenses	2,106,274	378,033	0	2,484,307	376,473	0	2,482,747	4,967,054
Equipment	514,463	74,667	0	589,130	59,167	0	573,630	1,162,760
Transfers	337,500	0	0	337,500	0	0	337,500	675,000
Debt Service	0	11,570	0	11,570	16,400	0	16,400	27,970
Total Costs	$7,688,659	$743,242	$87,912	$8,519,813	$752,970	$87,924	$8,529,553	$17,049,366
General Fund	4,651,005	307,647	0	4,958,652	300,990	0	4,951,995	9,910,647
State/Other Special	2,188,824	330,196	0	2,519,020	339,585	0	2,528,409	5,047,429
Federal Special	848,830	105,398	87,912	1,042,140	112,395	87,924	1,049,149	2,091,290
Total Funds	$7,688,659	$743,242	$87,912	$8,519,813	$752,970	$87,924	$8,529,553	$17,049,366

Program Description

The Forestry Division is responsible for planning and implementing forestry programs statewide. Forestry responsibilities include protecting Montana's natural resources from wildfire, regulating forest practices, and providing a variety of services to private forest landowners. Specific programs include:

1) Fire and Aviation Management - Protecting 50 million acres of state and private forest and watershed lands from wildfire through a combination of direct protection and county support.

2) Forest Practice Regulation - Enforcing Montana's streamside management zone regulations and monitoring the voluntary best management practices program on all forests in Montana.

3) Administering Montana's Fire Hazard Reduction Law - Ensuring that the fire hazard created by logging and other forest management operations on private forest lands is adequately reduced, or that additional fire protection is provided until the hazard is reduced.

4) Providing Forestry Services - Providing technical forestry assistance to private landowners, businesses and communities.

5) Tree and Shrub Nursery - Growing and selling seedlings for conservation and reforestation plantings on state and private lands in Montana.

The division work is mandated primarily in Titles 76 and 77, Chapter 13, and 5, respectively, MCA

Funding

The Forestry Program contains six programs which are funded with general fund, state special revenue, and federal funds. Table 11 details the funding for each of the forestry programs. General fund, as a part of the funding for the Air Operations Bureau, is transferred to and spent from the bureau's proprietary fund account. Transfers total $337,500 each year. Although the legislature no longer appropriates the proprietary

funds, it does set the hourly rates charged for use of department aircraft. Revenue from this charge is also deposited in the account. Historically, the aviation program's variable costs, such as fuel and maintenance, are financed from the proprietary fund, while its fixed costs are paid with general fund.

State special revenue, generated from the sale of timber on state land, is used to subsidize the nursery program. HB 393 (1993 session) combined the brush disposal and timber stand improvement fees into one fee for forest improvement and authorized the Land Board to require a timber purchaser to pay a timber improvement fee. The Land Board approves the proposed fee, which can vary when timber sales are approved based on the state's expected costs of slash disposal, road access and maintenance, and reforestation. To the extent that fees reduce the bid price, the amount of interest and income from the public school and other trusts (which would have been distributed to schools and other trust beneficiaries) is reduced. Landowner assessments are taxes paid by private forest landowners for wildfire protection. The department is required by statute to collect up to one-third of the state's fire protection appropriation from private landowners (section 76-13-207, MCA). Other state special revenues include money from the sale of nursery stock and slash removal assessments on private landowners who cut timber. Fees of $25 for each slash hazard reduction agreement and $0.60 per thousand board feet sold are collected for use by the department. The executive also uses fees from the forestry stewardship program for the first time to fund a portion of the division.

Federal funds finance a portion of the fire, other services, and service forestry programs. General fund reimbursed from federal agencies for wildfire costs are also budgeted at $100,000 federal funds each year. These funds are reimbursements received from federal agencies for general fund the department spent in assisting them in fire suppression. Since these funds would have been deposited in the general fund, these appropriations reduce the amount of general fund deposits.

Table 11
Forestry Program Executive Funding
1999 Biennium

Fiscal Year/Program	General Fund	State Special	Landowner Assessment	Federal	Total Funds
Fiscal 1998					
Air Operations	$337,500				$337,500
Fire	3,143,819		$1,804,413	$526,110	5,474,342
Nursery		$326,294			326,294
Private Slash Removal	133,536	370,189			503,725
Other Services	905,744				905,744
Service Forestry	438,053	18,124		428,119	884,296
New Proposals				87,912	87,912
Total Fiscal 1998	$4,958,652	$714,607	$1,804,413	$1,042,141	$8,519,813
Fiscal 1999					
Air Operations	$337,500				$337,500
Fire	3,144,749		$1,808,745	$522,252	5,475,746
Nursery		$326,605			326,605
Private Slash Removal	135,956	374,897			510,853
Other Services	894,310				894,310
Service Forestry	439,480	18,162		438,973	896,615
New Proposals				87,924	87,924
Total Fiscal 1999	$4,951,995	$719,664	$1,808,745	$1,049,149	$8,529,553

5706 35
Department of Natural Resources & Conservation **Forestry Division - Nursery Program**
Performance Based Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	9.72	0.00	9.72	9.72	0.00	9.72	9.72
Performance Based	289,753	36,541	0	326,294	36,852	0	326,605	652,899
Total Costs	$289,753	$36,541	$0	$326,294	$36,852	$0	$326,605	$652,899
State/Other Special	289,753	36,541	0	326,294	36,852	0	326,605	652,899
Total Funds	$289,753	$36,541	$0	$326,294	$36,852	$0	$326,605	$652,899

Program Description

LFD Comment **- The following narrative presents the performance based budget of the nursery program.**

The purpose of the Montana state nursery is to grow, sell, and distribute affordable, quality seedlings for conservation and reforestation plantings through a self-supporting program.

Funding

The nursery work is funded with revenue from the sale of nursery stock. However, for the first time, the executive uses money from forest improvement fees to subsidize the program.

Performance-Based Budget

The Montana state nursery is one of fourteen state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the Montana state nursery is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

Goal 1: Sell seedling for conservation plantings to private landowners and other public agencies.

Performance Measure/Target: The nursery estimates seedling quantities produced and sold as shown below.

	FY98	FY99	FY00	FY01
Seedling Quantity	810,000	810,000	810,000	810,000

Explanation: Many factors fluctuate plant production and sales. Poor germination, poor seed production, weather, natural disasters, new planting programs, sunset of existing programs, etc., can cause demand to exceed production and vice-versa. It is not important that production remain constant, but that production is responsive to predicted demand. However, during the two years a crop is growing, seedling demand can change substantially.

Goal 2: Produce conifer seedlings requested by Land Management Bureau for reforestation on state lands.

Performance Measure/Target: The nursery estimates seedling quantities for the Land Management Bureau as shown below.

	FY98	FY99	FY00	FY01
Seedling Quantity	200,000	200,000	200,000	200,000

Explanation: The number of seedlings ordered by the Land Management Bureau fluctuates depending on acres harvested, types of harvest, previous planting success, etc. The bureau authorized the nursery to expend fees received from state special revenue timber sale stumpage receipts to provide seedlings for reforestation. The amount authorized is negotiated between the bureau and the nursery.

Goal 3: Production costs of seedlings are determined annually.

Explanation: The key to pricing seedling correctly is knowing the cost to produce them. Nursery personnel will track detailed costs each year and adjust seedling prices accordingly.

Goal 4: To set prices and manage costs so that the nursery is self supporting by 2001.

Explanation: Beginning in fiscal 1992, the nursery was required to operate on funds from seedling sales only. Since that time, the nursery has had to rely partially on cash reserves from the past because program costs have exceeded sales revenue.

There are no new proposals. Present law adjustments total $36,541 in fiscal 1998 and $36,852 in fiscal 1999, comprised primarily of standard statewide personal services adjustments made for all agencies. The balance remaining is operating inflation of $4 and $315 each year, respectively, and nursery equipment increases above the base of $3,477 each year, respectively.

<u>*LFD Issue*</u> - The Forestry Division nursery program participated in the performance based budgeting (PBB) pilot project for the 1999 biennium. The legislature encouraged the executive to expand the PBB pilot project through House Bill 2 language. The idea of the PBB pilot project is to preview a method of budgeting that holds agencies accountable for the expenditure of resources based on service accomplishments. The methodology provides additional information to decision-makers that ties appropriations to goals and measures and performance objectives. Performance measures can be used both to provide policy guidance and to evaluate performance outcomes. Results are then compared to established targets.

The program developed its budget according to the statutory budget process, but also submitted a budget tied to a broad goal and included measures to evaluate performance. The following questions are raised to help the legislature determine if the PBB as submitted meets legislative budgeting needs. Table 12 provides the budget proposed by the executive.

1) Do the goals adequately express the purpose for the program's existence? Are these the legislature's goals? Does the legislature need additional detailed goals on which to base funding decisions?

2) The PBB as submitted does not prioritize activities or performance measures. For example, if funding were inadequate to meet the goal of selling 810,000 seedlings to private landowners, would the department reduce funding from the 200,000 seedlings for state bids to meet it?

3) Are the performance measures adequate for the legislature to determine how the division performs its duties? For example, if 200,000 seedlings were provided for state lands, will the legislature be satisfied that the program is meeting its goal in the most efficient manner?

4) No dollar amounts are associated with the performance measures. How will the legislature determine the budget changes needed to change the emphasis of the program? For example, how much less should be budgeted if the legislature wanted to grow fewer seedlings?

5) How will the 1999 legislature determine the budget changes needed if performance measures are not met or exceed expectations? Should budgets be increased as an incentive if measures are not met or decreased as punishment?

6) The goal is for the program to be self-sustaining. How is this to be accomplished? The program is requesting a 41 percent increase in funding and an increase of 2.38 FTE over the amount appropriated for fiscal 1997. How will this increase in cost make the program self-sustaining? The 1993 legislature removed all general fund from the program, thus making it self-sufficient on fees. This has not been the case, since the executive requests $100,539 over the 1999 biennium from timber improvement fees,

a source of revenue new to this program that the 1995 legislature did not use and which is not directly from the sale of nursery stock. The program has set a date of 2001 to be self-sustaining. This date is 7.5 years since the 1993 session.

Table 12
Department of Natural Resources & Conservation
Nursery's Performanced Based Budget

	Actual Expenditures Fiscal 1996	Appropriated Fiscal 1997	Requested Fiscal 1998	Requested Fiscal 1999
Expenditures				
FTE	7.34	7.34	9.72	9.72
Personal Services	$198,098	$179,869	$231,158	$231,158
Operating	87,132	34,913	87,136	87,447
Equipment	4,523	16,000	8,000	8,000
Total	$289,753	$230,782	$326,294	$326,605
Funding				
Forest Improvement Fees	$57,879	$0	$52,207	$45,888
Nursery Sales	231,874	230,782	274,087	280,717
Total	$289,753	$230,782	$326,294	$326,605

Executive Present Law

5706 35 Department of Natural Resources & Conservation Forestry Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	278,972	300,930
02		Inflation/Deflation	4,975	10,291
03		Fixed Costs	10,258	10,182
		Total Statewide Adjustments	$294,205	$321,403
Significant Present Law Adjustments				
04	91035	Equip-Pl-Hb2	71,190	55,690
05	91085	Leased Vehicles Replacement	7,320	8,750
06	91086	Administrative Workload	31,246	18,846
07	91087	Forest Practices	9,443	9,443
08	91088	Community Forestry	83,713	86,313
09	91089	On Site Assistance	0	1,000
10	91090	Stewardship	20,440	25,440
11	91091	Forest Pest Management	1,641	2,041
12	91093	Slash	204	204
13	91094	Fire Assessment Programming	7,000	7,000
14	91095	Fire Instructions	1,000	1,000
15	91096	Nfm Analysis	10,000	10,000
16	91097	Excess Property Workload	5,000	5,000
17	91098	Vehicle Repair/Maintenance	34,279	34,279
18	91100	Inter Agency Contracts	34,542	34,542
19	91101	Land Rental	4,000	4,000
20	91102	Training/Aircraft	12,000	12,000
21	91103	Aviation Facilities Rental	11,919	11,919
22	91104	Cost Share Fire Training	22,675	22,675
23	91358	Hra Funding Shift	80,000	80,000
		Total Significant PL Adjustments	$447,612	$430,142
Other Base Adjustments			$1,425	$1,425
		Grand Total Present Law Adjustments	$743,242	$752,970

<u>LFD Comment</u> - The executive uses $151,198 general fund in fiscal 1998 and $126,079 in fiscal 1999 to fund present law increases.

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) <u>Equip-PL-HB 2</u> - Equipment expenditures in fiscal 1996 were $509,940. The net department request for various equipment is $71,190 in fiscal 1998 and $55,690 in fiscal 1999.

<u>LFD Comment</u> - The executive funds this increase with $47,484 general fund in fiscal 1998 and $37,145 in fiscal 1999.

5) <u>Leased Vehicles Replacement</u> - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $11,570 in fiscal 1998 for two pickups and one sedan and $6,500 in fiscal 1999 for two pickups. In addition, there is $9,900 if fiscal 1999 to continue the first year vehicles. The vehicles will be located in Anaconda, Missoula, and Plains. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee for the program based on cost. The operating expenses contain reductions of $4,250 in fiscal 1998 and $7,650 in fiscal 1999 for gasoline and maintenance cost savings. The net adjustments are $7,320 in fiscal 1998 and $8,750 in fiscal 1999. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

<u>LFD Comment</u> - The executive funds this increase with $4,882 general fund in fiscal 1998 and $5,836 in fiscal 1999.

6) <u>Administrative Workload</u> - The general fund recommendation for $31,246 in fiscal 1998 and $18,846 in fiscal 1999 will provide additional janitorial services, office supplies, replacement of current and antiquated phone systems, rental costs for office and storage space, and repair and maintenance needed as a result of department relocation of field offices statewide and additional employees resulting from the adopted phased-in 1997 biennium plan for increased timber sales.

LFD Issue **- The executive funds this increase entirely with general fund. The phased-in modification (for HB 201, which was passed in the 1995 session) provided for an increase of 3.0 FTE and a decrease in total funding of $17,322 between fiscal 1996 and 1997. This legislation provides resources to harvest additional timber from state lands funded from state special revenue. However, this activity and funding was transferred from this division to the Trust Land Management Division where increases to present law are being requested. Since $18,022 each year of this adjustment is for HB 201, these amounts can be removed.**

7) Forest Practices - This is a first time request to spend funds collected in the state special revenue account from fines and penalties for Streamside Management Zone violations. By statute, the department is to spend such fines to promote good forest stewardship. Expenditures for logger/landowner educational literature and/or workshops is $9,443 each year of the biennium.

LFD Issue **- The executive expects $10,000 each year of fine revenue never before appropriated by the legislature. The revenue is from violations of the Streamside Management Zone law. This increase is in addition to the $43,214 general fund increase each year of the 1997 biennium provided by the 1995 legislature for this purpose. Since this increase is funded from a new funding source for this division (revenue was first collected in fiscal 1995), the legislature could use the money to reduce general fund and still maintain expenditures at the base level.**

Legislative Option

1) Do not approve the increase; reduce general fund by $10,000 and increase state special revenue by the same amount;

2) Approve the increase.

8) Community Forestry - This recommendation is for contracted services which includes workshop development, annual meeting speaker, literature, computer system, and software development. Authority is also recommended to spend carry over federal funds for the Community Forestry Program. The purpose is to assist communities to inventory, care for existing trees, and plant new trees and shrubs. These services are expected to continue. The $83,713 in fiscal 1998 and $86,313 in fiscal 1999 is federal funds.

LFD Issue **- Of the increase, $80,000 is for the community forestry program. Since the federal funds are carry over funds from the 1997 biennium, the legislature should consider designating the $80,000 each fiscal year as one-time-only, if approved. The 1995 legislature funded 3.0 FTE for the community forestry program as a new proposal only for the 1997 biennium. The executive is requesting continuation of the FTE in a new proposal (see the LFD issue in the "New Proposal" section). However, operational expenditures totaling $143,026 each fiscal year are being requested by the executive. If the new proposal is not approved, the legislature could eliminate the requested operational expenditures.**

9) On Site Assistance - Federal cost share assistance in SIP, ACP, FIP contracted services increases to provide on-site assistance to landowners to prepare federal cost-share practices. The $1,000 in fiscal 1999 is federal funds.

10) Stewardship - This request for $20,440 in fiscal 1998 and $25,440 in fiscal 1999 is to contract with Montana State University Extension Services to conduct Montana Forest Stewardship Workshops for private forest landowners statewide These are 100 percent federal funds.

LFD Issue **- The 1995 legislature provided $170,000 each fiscal year of the 1997 biennium for this purpose. The Executive Budget does not provide detail on how much is being requested for the 1999 biennium.**

11) Forest Pest Management - The Executive Budget recommendation is for $1,641 in fiscal 1998 and $2,041 in fiscal 1999 to contract for flight time to conduct annual aerial insect and disease detection flights statewide. Funds are 100 percent federal.

12) Slash - Because of seasonal slash workload, there is occasional need to hire temporary secretaries. The recommendation for $204 each year of the biennium is state special revenue.

13) Fire Assessment/Reorganization - The cost increase to the fiscal 1996 base is $7,000 each year of the 1999 biennium for computer programming personnel to develop software in the fire assessment program on personal computers and for contracting Department of Administration (DOA) computer programming personnel to revise the existing fire assessment computer program on the DOA mainframe system to meet the requirements of data compatibility with the Department of Revenue information.

LFD Comment **- The executive funds this increase with $4,667 general fund in fiscal 1998 and fiscal 1999.**

14) Fire Instructions - This recommendation is for contract fire department instructors within the county co-op fire program. The increase for $1,000 each year of the biennium reflects a change in county instructors. Funding is 66 percent general fund and 33 percent state special revenue funds.

LFD Comment **- The executive funds this increase with $667 general fund in each fiscal year.**

15) NFM Analysis - The increase from fiscal 1996 is for personnel to collect and analyze information necessary for the completion of the "National Fire Management Analysis System" study required by the U.S. Forest Service to receive federal grant monies. The request for $10,000 each year is 66 percent general fund and 33 percent state special revenue funds.

LFD Comment **- The executive funds this increase with $6,667 general fund in fiscal 1998 and $3,333 in fiscal 1999.**

16) Excess Property Workload - Fiscal 1996 base expenditures increase $5,000 each year of the 1999 biennium for contract screeners required to obtain federal excess personal property utilized within the fire program. Funding is 66 percent general fund and 33 percent state special revenue funds.

LFD Comment **- The executive funds this increase with $3,333 general fund in each fiscal year.**

17) Vehicle Repair/Maintenance - An increase of $34,279 each year of the 1999 biennium is for: equipment development, repair, and maintenance due to additional fire suppression load on an aging fleet; repair of aging fire vehicles which are seeing increased use on federal cooperator fire incidents; repair and maintenance of an aging statewide radio communication system that is critical for personnel safety; maintenance contracts for office and ship equipment necessary for continued use and operation within the fire management function. Funding is 28 percent general fund, 14 percent state special revenue, and 58 percent federal funds.

LFD Comment **- The executive funds this increase with $9,519 general fund in each fiscal year.**

18) Inter Agency Contracts - This 1996 base expenditure increase is $34,542 each year of the 1999 biennium to fund an increase in fire protection contracts with the BIA, Flathead agency, and Bureau of Land Management for protection of state and private lands. Funds are also needed to fund the initial attack contract with Beaverhead County for fire suppression and to distribute additional federal funds to fire departments received from the Departments of Interior and Agriculture.

LFD Comment **- The executive funds this increase with $5,029 general fund in each fiscal year.**

19) Land Rental - An increase of $4,000 each year of the biennium is for rental of land for fire lookout sites, fire warehouse space, and radio sites within fire protection areas in Missoula, Plains, Lewistown, Billings, Miles City, and Helena areas. Funds are 66 percent general fund and 33 percent state special revenue funds.

LFD Comment **- The executive funds this increase with $2,667 general fund in each fiscal year.**

20) Training/Aircraft - The fiscal 1996 base expenditures increase is $12,000 each year of the 1999 biennium for additional use of department aircraft in providing training. Funding is 67 percent general fund and 33 percent state special revenue funds.

LFD Comment **- The executive funds this increase with $8,000 general fund in each fiscal year. The increase of $12,000 (and base amounts of $44,569 each year) will be deposited to the proprietary account based on the per hour charge approved by the legislature as the division uses department aircraft.**

21) Aviation Facilities Rental - An additional $11,919 general fund each year of the 1999 biennium is for rent and leases for aviation maintenance and hangar facilities needed for storage of aviation equipment, supplies, and materials stored in a safe and secure facility as required by federal regulations.

LFD Issue **- The executive funds this increase with $11,919 general fund in each fiscal year. However, fixed costs of the air operations program are already budgeted from the proprietary account and paid by the general fund. The Executive Budget maintains general fund transfers to the proprietary account at fiscal 1996 levels (see the LFD issue in the "Program Issues" section). If this is a fixed cost of the air operations program, the executive should include it in that program's budget and request the general fund as a transfer into the proprietary account.**

22) Cost Share Fire Training - An increase of $22,675 each year above the fiscal 1996 expenditures is to pay for increased costs from the U.S. Forest Service to support the state share of fire training within the Northern Rockies and to support inter-agency fire dispatch and coordination center operations in Dillon, Helena, Missoula, Libby, Kalispell, Lewistown, Plains, Miles City, and Missoula. Funding is 67 percent general fund and 33 percent state special revenue funds.

LFD Comment **- The executive funds this increase with $15,117 general fund in each fiscal year.**

23) HRA Funding Shift - Beginning with the 1992 special legislative session and continuing through the current biennium, the program has intentionally funded the slash program with a disproportionately high percentage of slash special revenue. This decision was based on legislative direction to spend down the account balance in order to save general fund. During the late 1980's the department unintentionally built up a considerable balance in the slash account which is funded with fees paid by the operators or landowners who have hazard reduction agreements with the program. The excess balance resulted from conservative budgeting and underestimating revenues.

Historically, the program has been funded with an approximately equal balance of user fees and general fund. However, over the past four years, the general fund appropriation has only covered about one third of the total program costs. By the end of the 1997 biennium, the agency will have used the entire excess balance in the slash account. The Executive Budget recommendation restores the historic funding split for this program. The recommendation is to use interest generated from the hazard reduction bond holding account. This interest is presently deposited to the general fund. By earmarking interest revenue to the hazard reduction state special revenue account, the program will generate sufficient revenue to fund the program without additional direct general fund appropriations in the future.

LFD Issue **- To effect this switch would require a statutory change. The effect of this change is a reduction in general fund revenue of $80,000 each fiscal year. The same effect could be achieved without a statutory change by budgeting $80,000 general fund each fiscal year. The executive request for the slash program is an increase of 1.01 FTE and $139,335 in fiscal 1998 and $142,101 in fiscal 1999. Of these increases, the general fund impact is $111,879 in fiscal 1998 and $112,930 in fiscal 1999. The total impact of this program on general fund is $233,498 in fiscal 1998 and $234,549 in fiscal 1999.**

The issue for legislative consideration is -- why is general fund supporting this program? Nothing mandates that general fund pay a portion of this program's expenses. Fees are not set at a level to adequately support the slash program at the requested level. The program receives statutorily set fees from: 1) $0.60 for each 1,000 board feet up to 500,000 board feet; and 2) $25 for each fire hazard reduction agreement. In addition, statute directs the Board of Land Commissioners to set the master hazardous reduction agreement fee commensurate with costs. All holders of fire hazard reduction agreements also pay to the Montana University System $0.15 for each 1,000 board feet up to $20,000. The upper limits on fees favor persons engaged in continuous large-scale logging operations.

Legislative Policy **- Does the legislature want the slash program to be self-sufficient?**

Legislative Options

1) Yes:

a) eliminate general fund and cut expenditures by the amount of the general fund reduction; or

b) eliminate general fund and increase fee revenue (76-13-114, MCA) - Direct the Land Board to ensure master hazardous reduction agreement fees are set commensurate with costs. Increase statutorily set fee amounts. Eliminate the exceptions provided to persons engaged in continuous large-scale logging operations.

2) No. Fund program costs with general fund.

5706 35

Department of Natural Resources & Conservation **Forestry Division**

Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Community Foresters	3.00		87,912	87,912	3.00		87,924	87,924
Total For New Proposals	3.00		$87,912	$87,912	3.00		$87,924	$87,924

Executive New Proposals

1) Community Forestry FTE - The executive recommends $87,912 federal special revenue in fiscal 1998 and $87,924 in fiscal 1999 for 3.00 FTE which were approved by the 1995 legislature. Currently three positions are providing full-time urban forestry assistance from department offices in Missoula, Lewistown, and Miles City. All positions are supported under a federal grant for urban forestry assistance that was intended to be ongoing and expected to be permanent as a result of legislative action last session. Program authority is provided in 77-5-4, MCA.

LFD Issue **- Although the 3.0 FTE currently exist and have been on-going for seven fiscal years, personal services appropriations for them have never been made permanent by the legislature. For fiscal years 1992 through 1995, operating authority was transferred to personal services to fund the community foresters. The 1995 legislature stipulated that the personal services appropriations for this program were to be one-time so expenditures are not reflected in the base. The program is funded entirely through a federal grant and the executive has budgeted operating expenses in present law. The legislature should decide if this is an on-going program. If so, the FTE should be approved and budgeted. If not, the legislature should not approve the proposal and should remove the $143,026 federal funds each fiscal year requested in present law for operating expenses.**

Program Issues

Federal Fire Reimbursements

The executive present law requests $100,000 federal funds each year for pre-fire suppression activities. This money is general fund. The federal money is reimbursement from federal agencies for general fund the department spent in fighting wildfires on land under the jurisdiction of the federal government. The legislature appropriates the general fund through the supplemental process. If reimbursements exceed $100,000, they are deposited in the general fund. Since the executive requests this money for wildfire pre-suppression, fire protection assessments are increased by one-third as a match.

Legislative Policy **- Does the legislature want all reimbursements to be deposited to the general fund?**

Legislative Options

1) Yes. Direct the department to deposit all federal wildfire reimbursements in the general fund. Switch funding of the $100,000 request each year from federal funds to general fund.

2) Yes. Direct the department to deposit all federal wildfire reimbursements in the general fund. Eliminate the $100,000 federal request each fiscal year. Wildfire assessments must be reduced by $33,333 each fiscal year.

3) No. Continue the deposit of general fund reimbursements to the federal account.

Fire Protection Assessment

Owners of forested land, as classified by DNRC, pay an assessment for wildfire protection. By statute (76-13-207, MCA), the department sets the assessment to raise an amount of money no more than one-third of the total appropriated for fire protection (pre-suppression) costs. For the 1997 biennium, the legislature appropriated revenue from the assessment for one-third of the budget ($1,657,063 in fiscal 1996) in anticipation that the money would be raised. However, because: 1) more revenue was received than anticipated; 2) expenditure of the money was less than anticipated; or 3) of a combination of both, the fire protection taxes account had an unreserved fund balance of $150,525 at the end of September 1996. General fund also is appropriated for this purpose ($2,935,387 in fiscal 1996). Section 17-2-108, MCA, requires agencies to spend nongeneral fund money before using general fund. It also provides that, if directed by the appropriations act, "the approving authority shall decrease the general fund appropriation of an agency by the amount of money received from nonfederal sources in excess of the appropriation..." and "the appropriation of the fund in which the money is received is increased in the amount of the general fund decrease". If the account has any unreserved fund balance, appropriations from the account could be increased by the amount of the balance and general fund appropriations decreased by a like amount.

Legislative Options

1) Include the necessary language in HB 2 directing the approving authority to decrease general fund appropriations and increase state special revenue appropriations if the fire protection taxes account has any unreserved fund balance at fiscal year end.

2) Decrease the executive's fiscal 1998 general fund request for the Forestry Program by $150,000 and increase state special revenue appropriations by the same.

3) Both 1 and 2.

6201 00

Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Department of Agriculture				
FTE	108.49	(2.50)	2.29	108.28	(2.50)	2.38	108.37	108.28
Personal Services	3,089,636	393,245	54,180	3,537,061	399,930	55,591	3,545,157	7,082,218
Operating Expenses	1,714,893	601,066	48,981	2,364,940	592,404	48,972	2,356,269	4,721,209
Equipment	238,899	(25,812)	110,895	323,982	(53,459)	159,025	344,465	668,447
Grants	2,483,803	415,184	0	2,898,987	415,184	0	2,898,987	5,797,974
Transfers	0	80,000	0	80,000	80,000	0	80,000	160,000
Total Costs	$7,527,231	$1,463,683	$214,056	$9,204,970	$1,434,059	$263,588	$9,224,878	$18,429,848
General Fund	397,967	95,376	13,288	506,631	84,923	10,885	493,775	1,000,406
State/Other Special	6,417,112	1,044,956	176,693	7,638,760	1,037,185	166,226	7,620,522	15,259,282
Federal Special	430,976	294,523	20,631	746,130	283,079	83,656	797,711	1,543,840
Proprietary	212,660	25,035	2,461	240,156	25,939	2,016	240,615	480,772
Expendable Trust	68,516	3,793	984	73,293	2,933	806	72,255	145,548
Total Funds	$7,527,231	$1,463,683	$214,056	$9,204,970	$1,434,059	$263,588	$9,224,878	$18,429,848

Mission Statement

To protect, enhance, and develop all agriculture in Montana; to encourage and promote production and marketing for agriculture and allied industries; and to provide protection for producers and consumers through administration and enforcement of statutes established by Montana's legislature.

Agency Description

The Department of Agriculture, required by Article XII, Section 1 of the Montana Constitution, was established to encourage and promote the interests of agricultural and allied industries in Montana. The Department of Agriculture (MDA) collects and publishes agricultural production and marketing statistics relating to agricultural products; assists, encourages, and promotes the organization of farmers' institutes, agricultural societies, fairs, and other exhibitions of agriculture; adopts standards for grade and other classifications of farm products; coordinates in devising and maintaining economical and efficient marketing distribution systems; gathers and distributes marketing information concerning supply, demand, price, and movement of farm products; regulates production and marketing of food and fiber products; and registers pesticides and fertilizers and enforces laws pertaining to them.

6201 00
Department of Agriculture — Biennium Budget Comparison

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	105.99	2.29	108.28	105.99	2.38	108.37	108.49	108.28
Personal Services	3,482,881	54,180	3,537,061	3,489,566	55,591	3,545,157	6,622,639	7,082,218
Operating Expenses	2,315,959	48,981	2,364,940	2,307,297	48,972	2,356,269	3,756,308	4,721,209
Equipment	213,087	110,895	323,982	185,440	159,025	344,465	583,715	668,447
Grants	2,898,987	0	2,898,987	2,898,987	0	2,898,987	5,179,190	5,797,974
Transfers	80,000	0	80,000	80,000	0	80,000	75,000	160,000
Total Costs	$8,990,914	$214,056	$9,204,970	$8,961,290	$263,588	$9,224,878	$16,216,852	$18,429,848
General Fund	493,343	13,288	506,631	482,890	10,885	493,775	874,240	1,000,406
State/Other Special	7,462,068	176,693	7,638,760	7,454,297	166,226	7,620,522	13,715,055	15,259,282
Federal Special	725,499	20,631	746,130	714,055	83,656	797,711	1,024,577	1,543,840
Proprietary	237,695	2,461	240,156	238,599	2,016	240,615	451,250	480,772
Expendable Trust	72,309	984	73,293	71,449	806	72,255	151,730	145,548
Total Funds	$8,990,914	$214,056	$9,204,970	$8,961,290	$263,588	$9,224,878	$16,216,852	$18,429,848

Agency Issues

Use of Excess Appropriation Authority

During the 1997 biennium several instances occurred within the Department of Agriculture in which the agency had received additional authority for present law adjustments, but the agency expended the appropriation authority for purposes other than the 1995 legislature had intended. These expenditures carry forward and are part of the budget base used to determine the next biennium's appropriation. At the same time, the Executive Budget again requests additional authority for the original purpose. Therefore, the executive budget is expanded in areas the legislature did not intend. The following are examples:

State Grain Laboratory - The executive requests a present law adjustment of $112,776 state special revenue for the biennium ($57,638 in fiscal 1998 and $55,138 in fiscal 1999) for non-discretionary equipment. Even though the executive is requesting additional authority to fund equipment, equipment authority approved by the 1995 legislature was used for other purposes. In fiscal 1996, nearly $45,000 of excess equipment authority was used to fund personal services and operational expenses for the Wheat and Barley Committee. Included in these transfers was a salary increase for the Bureau Chief (an exempt position), reclassification of another position, payment of overtime, and funding of contracted services.

Wheat and Barley Committee Grants - The executive requests $1,026,900 state special revenue each year to fund grants ($926,000 as a base amount and $100,000 per year as a present law adjustment) for wheat and barley research and marketing. In fiscal 1996, more than $57,000 of excess grant authority was used to fund personal services and operational expenses including a salary increase for the Bureau Chief, reclassification of another position, and payment of overtime (these expenditures are related to the State Grain Laboratory's expenditures mentioned in the preceding paragraph).

Noxious Weed Control Program Grants - The executive requests a present law adjustment of $411,358 state special revenue for the biennium ($205,679 each year) to provide grants in the noxious weed control program. These grants are listed in the present law table for the Agriculture Sciences Division as Noxious Weed Trust Fund Grants and again as Grant Adjustments, at the bottom of the table. Although the executive is requesting additional authority to fund grants, in fiscal 1996 nearly $41,000 of excess grant authority was used to fund personal services cost and purchase equipment. The personal services expenditure funded positions that had been identified by the executive for vacancy savings.

Scientific Assistance - The executive requests a present law adjustment of $246,139 state special revenue for the 1999 biennium to fund contracted services. In fiscal 1996, nearly $93,000 of appropriation authority was used to fund equipment purchases, personal services expenses for positions earmarked for vacancy savings, and various other operational expenses within the division.

If it is the legislature's intent to provide funding for any of the specific purposes listed for which the department used the funds for other purposes, it may wish to restrict the appropriation to only those purposes stated.

6201 15

Department of Agriculture **Central Management Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	11.50	0.00	0.00	11.50	0.00	0.00	11.50	11.50
Personal Services	413,925	31,343	0	445,268	31,929	0	445,854	891,122
Operating Expenses	116,113	22,043	40,314	178,470	(2,301)	40,314	154,126	332,596
Equipment	14,218	13,982	8,900	37,100	22,782	0	37,000	74,100
Transfers	0	0	0	0	0	0	0	0
Total Costs	$544,256	$67,368	$49,214	$660,838	$52,410	$40,314	$636,980	$1,297,818
General Fund	180,140	40,322	13,288	233,750	29,102	10,885	220,127	453,877
State/Other Special	263,423	14,300	27,067	304,790	10,152	22,172	295,747	600,536
Federal Special	65,156	12,402	5,414	82,972	13,811	4,435	83,402	166,374
Proprietary	26,233	1,778	2,461	30,472	962	2,016	29,211	59,684
Expendable Trust	9,304	(1,434)	984	8,854	(1,617)	806	8,493	17,347
Total Funds	$544,256	$67,368	$49,214	$660,838	$52,410	$40,314	$636,980	$1,297,818

Program Description

The Central Management Division performs technical, fiscal, and administrative support functions for the department. Responsibilities include accounting, budgeting, payroll, personnel, purchasing, property control, data processing, systems analysis and computer programming, equal opportunity administration, and legal support to all programs. Included in this division is the director's office, which provides overall policy development for the department. The program work is mandated in Title 80 and Title 2, Chapter 15, MCA.

Funding

The Central Management Division is funded by assessments on revenue sources which support the department's programs. The percentage rates of 20.06 for fiscal 1998 and 19.20 for fiscal 1999 are applied against the personal services of each program and charged to each account. These percentages are determined by the ratio of the Central Management's budget to the sum of the agency's total personal services and 2.5 percent of grants. Exceptions to this method include: 1) the pesticide and groundwater accounts, which are not assessed a charge for the 1999 biennium; and 2) the grain services account, from which the 1993 legislature authorized a different method of assessing direct costs based on personal services for the 9.0 permanent FTE, and not the 13.4 temporary FTE.

Department personal services funded from the federal account are assessed at a rate of 17.89 percent. Also, included in this program's funding is a 2.5 percent assessment on grants administered by the department. General fund finances the balance of the program's budget above the assessments.

LFD Issue **- General fund provides 34.9 percent of the 1999 biennium funding. This is an increase over the 1997 biennial appropriation percentage of 28.1, meaning that the increases requested in present law and new proposals are disproportionately being funded with general fund. At the same time, general fund for the remainder of the agency's programs has remained very stable from the fiscal 1996 percentage.**

The legislature may wish to consider:

1) replacing general fund with a like amount of other revenues to maintain the current general fund share of total costs of this division; and/or

2) recommending that the agency re-examine its assessment method to ensure that the proper mix of funding is maintained.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment **- Personal services costs include a 3 percent vacancy savings rate for each year.**

6201 15

Department of Agriculture Central Management Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	31,343	31,929
02		Inflation/Deflation	(593)	(629)
03		Fixed Costs	12,612	(17,581)
		Total Statewide Adjustments	$43,362	$13,719
Significant Present Law Adjustments				
04	91099	Foreign Travel-Cost	6,168	6,168
05	91100	Cmd/Nd-Equipment	13,982	22,782
		Total Significant PL Adjustments	$20,150	$28,950
Other Base Adjustments			$3,856	$9,741
		Grand Total Present Law Adjustments	$67,368	$52,410

4) Foreign Travel-Cost - The executive recommends an increase of $6,168 each fiscal year of the 1999 biennium for foreign travel in concert with Montana Ambassadors' efforts to develop Montana's value-added industry and promote international trade and export. One foreign trip per year to Pacific Rim countries is budgeted.

LFD Issue **- The Executive Budget requests increased foreign travel from the fiscal 1996 level of $2,883 to $9,051 per year for the 1999 biennium. This is an over 300 percent increase and could build the base expenditures for future legislatures to consider. Of the increased amount, $2,229 is funded by general fund. The question is: Does the legislature concur with this increase in foreign travel? If so, does the legislature concur with the funding source?**

5) Equipment Replacement - Equipment replacement for fiscal 1998 is a net increase of $13,982 from the base and includes computer work stations for $11,200, two computer terminals for $6,000, one printer for $1,000, one laptop computer for $5,000, and one tape backup system with an automatic tape changer for $5,000. Recommended fiscal 1999 replacement equipment is $22,782 more due to the purchase of two computer terminals for $6,000, one printer for $1,000, one file server for $25,000, and one laptop computer for $5,000.

LFD Comment **- The base expenditure for equipment was $14,218. The Executive Budget present law adjustment and the new proposal for equipment increases the fiscal 1998 equipment appropriation request to $37,100 and to $37,000 for fiscal 1999. This is an over 260 percent increase each year. General fund supports $16,130 of the biennial total of $74,100.**

Other Base Adjustments - Other base adjustments are a combination of minor increases for statewide indirect costs, dues paid to the National Association of State Departments of Agriculture (NASDA) and office supplies. Included in fiscal 1999 are

costs associated with hosting the Western Association of State Departments of Agriculture convention.

6201 15
Department of Agriculture **Central Management Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999		
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Programmer/Analyst Cmd		12,613	34,101	46,714		10,885	29,429	40,314
02 Cmd/Disc Equipment		675	1,825	2,500				
Total For New Proposals		$13,288	$35,926	$49,214		$10,885	$29,429	$40,314

Executive New Proposals

1) Programmer/Analyst - The executive recommends $46,714 in fiscal 1998 and $40,314 in fiscal 1999, comprised of a proportionate share of program funding, for contracted services. This contract is needed to assist in conversion of the current DBASE applications to the Oracle environment. The existing department computer (DOS environment) programs cannot be imported into the established state standard Oracle system. DBASE program systems include accounting, grain inspection/certification, hail insurance, agricultural finance loans, pesticide tracking and registration, applicator/dealer licensing, farm applicator permitting, and groundwater. The general fund is $12,613 in fiscal 1998 and $10,885 in fiscal 1999.

LFD Comment **- This is a one time conversion of DBASE applications to an Oracle environment. The legislature may wish to restrict this authority to this specific event and code the appropriation as a one-time-only appropriation.**

2) Central Management Division Equipment - The executive recommends $2,500 proportional funding in fiscal 1998 to purchase a CD-ROM tower for publishing enterprise information across the LAN.

6201 30

Department of Agriculture — **Agricultural Sciences Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	52.46	0.00	2.29	54.75	0.00	2.38	54.84	54.75
Personal Services	1,690,601	138,563	54,180	1,883,344	144,719	55,591	1,890,911	3,774,255
Operating Expenses	641,519	410,309	8,667	1,060,495	426,496	8,658	1,076,673	2,137,168
Equipment	206,027	(113,940)	91,395	183,482	(151,587)	154,525	208,965	392,447
Grants	1,531,408	200,679	0	1,732,087	200,679	0	1,732,087	3,464,174
Total Costs	$4,069,555	$635,611	$154,242	$4,859,408	$620,307	$218,774	$4,908,636	$9,768,044
General Fund	101,027	(37,331)	0	63,696	(36,666)	0	64,361	128,057
State/Other Special	3,614,152	454,377	139,026	4,207,554	451,261	139,554	4,204,967	8,412,521
Federal Special	354,376	218,565	15,217	588,158	205,712	79,221	639,309	1,227,466
Total Funds	$4,069,555	$635,611	$154,242	$4,859,408	$620,307	$218,774	$4,908,636	$9,768,044

Program Description

The Agricultural Sciences Division (ASD) administers, manages, coordinates, and evaluates the major activities of: 1) pesticide and pest management; 2) analytical laboratory services; 3) noxious weed management; 4) agricultural chemical groundwater management; and 5) vertebrate pest management.

Duties also include administering agricultural programs related to the production, manufacturing, and marketing of commodities exported from or distributed in the state. Services are provided to the industry by: 1) performing professional insect/disease surveys; 2) performing medicated feed mill inspections; 3) issuing official grade commodity certificates; 4) issuing dealer licenses/permits; 5) registering products; and 6) performing analytical analyses of bees, seeds, fertilizer, feed, and grains. Program staff provide technical/scientific information upon request to industry and the general public. Staff investigate and resolve consumer complaints ranging from product contamination and quality control to elevator bankruptcies and non-payment for products.

This program administers the Montana Pesticides Act, Agricultural Chemical Groundwater Protection Act, Crop Insect Detection Act, Vertebrate Pest Management Act, Noxious Weed Trust Fund Act, the Weed Assistance Act, Noxious Weed Seed Forage Act, Montana Produce Act, Agricultural Commodity Warehouse and Dealer Act, Agricultural Seed Act, Apiculture Act, Nursery Act, Feed and Fertilizer Acts, Mint Act, and the department Chemical Analytical Laboratory.

Funding

The Agricultural Sciences Division's largest funding source is state special revenue collected from the $1.50 noxious weed vehicle registration fees and the interest earned on the noxious weed trust. Pesticide registration fees of $150 per product are allocated $80 to the groundwater state special revenue account and $70 to the pesticide management state special revenue account. The pesticide management account also receives revenue from pesticide dealers and commercial, governmental, and farm applicator fees. Other state special revenue is from commercial feed and fertilizer registration and inspection fees. These fees included mint assessments, fees for anhydrous ammonia and commodity inspection, testing and license fees, and commercial dealer and public warehouse operator license fees. Federal funds are from the market services account, which completely funds the medicated feed program and portions of the pesticide and groundwater programs supported by the EPA. The proprietary funding is collected from alfalfa leaf cutter bee assessments.

The executive budget shifts funding sources in the commodity warehouse operators license fees. Since 1994 this program was funded with 50 percent state special revenue from fees and 50 percent general funds. Statute 80-4-503, MCA sets the maximum basic fee at $500. The fees were increased from $232 to $464. The shift in funding will reduce general fund support by approximately $93,000 for the biennium.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6201 30 Department of Agriculture Agricultural Sciences Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	136,913	143,069
02		Inflation/Deflation	3,840	5,879
03		Fixed Costs	16,865	17,961
		Total Statewide Adjustments	$157,618	$166,909
Significant Present Law Adjustments				
04	91003	Epa Grant Funds	150,000	150,000
05	91004	Noxious Weed Trust Fund Grants	150,000	150,000
06	91005	Scientific Assistance	123,072	123,067
07	91006	Mint Program	10,000	10,000
08	91009	Ground Water Smp	10,000	27,100
09	91010	Noxious Weed Seed Free Forage	15,000	15,000
10	91101	Pesticide/Nd-Equip	(10,554)	(45,573)
11	91102	Nw Trust/Nd-Equip	3,000	5,500
12	91103	Ag Groundwater/Nd-Equip	(53,298)	(64,317)
13	91104	Produce/Nd-Equip	(5,050)	(5,879)
14	91105	F&F-Aa/Nd-Equip	(30,115)	(22,895)
15	91106	Nursery/Nd-Equip	(14,928)	(15,428)
16	91107	Grant Adjustments	55,679	55,679
		Total Significant PL Adjustments	$402,806	$382,254
Other Base Adjustments			$75,187	$71,144
		Grand Total Present Law Adjustments	$635,611	$620,307

4) EPA Grant Funds - The executive requests $150,000 federal special revenue each fiscal year for grant funds from the federal Environmental Protection Agency (EPA). In the 1997 biennium, EPA funds were received and the 1995 legislature approved the expenditure of these funds as a one-time-only (OTO) appropriation. Annual pesticide discretionary funds are anticipated from EPA for special state programs involving pesticide certification, enforcement, worker protection, endangered species, and groundwater. These projects improve the state pesticide program and provide direct assistance to the regulated industry or general public on proper use, handling, and sales of pesticides. The department will be fully implementing the Worker Protection Standards in the 1999 biennium after providing direct assistance and training to farmers and ranchers on how to comply with standards developed in the 1997 biennium.

In the 1999 biennium, the department will prepare and begin implementing the Agricultural Chemical Groundwater State Management Plan based upon EPA restricting the use of up to five pesticides, which requires states to have plans to prevent contamination of groundwater. These two projects, worker protection and pesticide groundwater, along with regular EPA grant funds, will continue to assist in retraining for the use of pesticides for agricultural production while ensuring protection of farm workers and the agricultural environment.

LFD Comment - **Please refer to the agency issue that addresses how additional grant authority can be used for purposes other the legislature's intent.**

5) Noxious Weed Trust Fund Grants - The executive recommends $150,000 state special revenue each year of the 1999 biennium for 10 to 20 additional cooperative noxious weed trust fund projects and related operating costs. Noxious weed trust fund grants finance long-term management programs that are cooperatively conducted by private and public land

managers, county weed districts, and others.

LFD Issue **- The executive requests a present law adjustment of $411,358 state special revenue for the biennium ($205,679 each year) to provide grants in the noxious weed control program. These grants are listed in the present law table for the Agriculture Sciences Division as Noxious Weed Trust Fund Grants and Grant Adjustments, at the bottom of the table. Although the executive is requesting additional authority to fund grants, in fiscal 1996 nearly $41,000 of excess grant authority was used to fund personal services costs and to purchase equipment. The personal services expenditure funded positions for which the legislature had not provided funding. If it is the legislature's intent to provide additional funding for these grants, it may wish to restrict the appropriation to that purpose.**

6) Scientific Assistance - The executive recommends an increase of $123,072 in fiscal 1998 and $123,067 in fiscal 1999 for consulting and professional services contracts to validate analytical procedures for pesticides in various media (soil, water, vegetation, etc.) with the national clearinghouse for analytical procedures. Association of Official Analytical Chemists (AOAC) costs of $500 per year are budgeted. New pesticides must have validated procedures to ensure samples analyzed from investigations are proper and repeatable.

The 1993 legislature approved legislation to conduct a waste pesticide and container collection, disposal, and recycling program (80-8-111, MCA). The department contracts with a company specializing in such programs at $197,583 for fiscal 1998 and $197,578 in fiscal 1999.

The 1993 legislature approved legislation to provide the Montana State University Cooperative Extension Service (MSU-CES) with funds collected through the farm applicator permit program to conduct certification and training programs. The additional $20 collected per farmer is transferred as follows: $5 to MSU-CES and $15 to the appropriate county extension service. In fiscal 1998 and 1999 the amount transferred will be $35,080.

The special educational program is operated by authority of 80-8-212(2), MCA, for conducting an educational program for pesticide retailers (home, yard, and garden use pesticides) and the general public on pests, pesticides, and alternative methods. The contract also is with the MSU-CES.

There is $28,262 in fiscal 1998 and 1999 for contracts with agents of the department (county agents, weed district supervisors, private contractors) to inspect hay fields (forage) and certify those qualifying as being noxious weed seed free.

Contracts of $18,900 in fiscal 1998 and 1999 with the Montana Bureau of Mines and Geology and MSU will provide groundwater characterization and vulnerability data to the MDA for the development of Pesticide Specific Management Plans.

There is $10,000 in fiscal 1998 and 1999 for grain audits contracts to improve protection to farmers selling and storing agricultural commodities. Some warehouse operators and commodity dealers have experienced financial problems which jeopardize the finances of farmers if contracts and agreements cannot be financially satisfied by warehouse or dealer. Audits will allow for improved financial assessments of operations and correction of financial problems. A contract also will provide for special training of warehouse operators and dealers experiencing financial problems to assist them in maintaining proper financial records and status reports as required by the agricultural commodities statute. This compliance assistance will not only improve warehouse and dealer operations, but ensure that agricultural producers are protected.

The Montana Mint Committee issues contracts to the Mint Industry Research Council and to the MSU Agricultural Experiment Station to conduct research on mint production, mint varieties, nutrient requirements and insect, weed, and

disease control.

LFD Issue **- The executive requests a present law adjustment of $246,139 state special revenue for the 1999 biennium to provide additional contracted services. Even though the executive is requesting additional authority to finance contracted services, in the past appropriation authority approved for contracted services was used for other purposes. In fiscal 1996, nearly $93,000 of appropriation authority was used to fund equipment purchases, personal services expenses for positions earmarked for vacancy savings, and other various operational expenses within the division that has increased the base used to determine 1999 biennium appropriations. If it is the legislature's intent to provide funding for additional contracted services, it may wish to restrict the appropriation.**

7) Montana Mint Program and Committee - The executive recommends $10,000 of state special revenue each year to support additional contractual research on production and pest management for spearmint and peppermint. The Mint Committee will contract with the Montana University System and others to perform the research. Revenues come from assessments on each mint grower. The Montana Mint Program and Committee are assigned to the department for administrative purposes.

LFD Issue **- This present law adjustment appears to duplicate the previous request.**

8) Groundwater SMPs - The executive recommends $10,000 state special revenue in fiscal year 1998 and $27,100 state special revenue in fiscal year 1999 for the preparation of at least three Specific Management Plans (SMPs) for pesticides restricted by the EPA. These plans will define management practices to protect groundwater and the department will monitor groundwater for the SMP of pesticides at key locations subject to the SMPs. Funding will be used to solicit input from the public and government agencies, and to publish the SMPs as administrative rules. Contract funding will be used to drill ten wells. Operating funds will be used by existing staff to sample and analyze groundwater from these wells.

9) Noxious Weed Seed Free Forage - The executive recommends $15,000 state special revenue each year of the 1999 biennium to certify noxious weed seed free forage for an additional 5,000 acres of forage crops each year. The Noxious Weed Seed Free Forage Advisory Council will be retained to advise the MDA. Department agents will inspect pellet producers and provide education and technical assistance. Contract funds will be used to address special noxious weed issues.

10) Pesticide, Equipment Replacement - Equipment replacement is a net reduction of $10,554 for fiscal 1998 and $45,573 for fiscal 1999. A half-ton 4x4 pickup, personal computers and terminals, a halogen specific selective detector which will be attached to existing gas liquid chromatograph (GLC) for selective determination of halogenated pesticides such as phenoxy acids and other chlorinated hydrocarbons, and a mixer homogenizer to be used as a mixer/homogenizer using aqueous organic solvents to blend and extract plant material for pesticide analysis is budgeted.

11) Noxious Weed Trust, Equipment Replacement - Equipment replacement is a net increase of $3,000 in fiscal 1998 and $5,500 in fiscal 1999 from the base to replace personal computers.

12) AG Groundwater, Equipment Replacement - Equipment replacement is a net reduction of $53,298 for fiscal 1998 and $64,317 for fiscal 1999 from the base. Replacement includes two personal computers each year, a water purification system and half of a half-ton 4x4 pickup in fiscal 1998. The same pickup will be shared by the Pesticide Program and the Groundwater Program. The cost in fiscal 1998 in item 11 above and in this item 12 is $12,019 for a total cost of $24,038.

13) Produce, Equipment Replacement - Equipment replacement is a net reduction of $5,050 in fiscal 1998 and $5,879 in fiscal 1999. Equipment being replaced is one vehicle and one computer in fiscal 1998 and one vehicle and two computers in fiscal 1999.

14) F&F AA, Equipment Replacement - Equipment replacement is a net reduction of $30,115 for fiscal 1998 and $22,895 for fiscal 1999 for one computer in fiscal 1998 and one vehicle and two computers in feeds and fertilizers in fiscal 1999.

15) Nursery, Equipment Replacement - Equipment replacement is a net reduction of $14,928 in fiscal 1998 and $15,428 in fiscal 1999 to replace one personal computer each year.

16) Grant Adjustments - The executive recommends a $55,679 increase for grants in fiscal 1998 and fiscal 1999 to enable the Noxious Weed Control Program additional contracts with counties, professional societies, and universities.

***LFD Comment* - Please refer to the LFD Issue in item 5 above (Noxious Weed Trust Fund Grants). In prior biennia, the department has expended additional authority received for these grants for other purposes.**

Other Base Adjustments - Other base adjustments are a combination of increases in legal fees, court costs, postage, minor laboratory equipment and supplies, in-state and out-of-state meals, lodging and associated travel expenses, and office supplies in the eight programs contained in the Agricultural Sciences Division.

6201 30
Department of Agriculture **Agricultural Sciences Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Pesticide & Grnd Wtr Personnel	1.00		18,443	18,443	1.00		18,441	18,441
02	Quarantines	1.29		44,404	44,404	1.38		45,808	45,808
03	Pesticide/D-Equipment			22,000	22,000			140,000	140,000
04	Ag Groundwater/D-Equipment			29,900	29,900			11,525	11,525
05	F&F-Aa/D-Equip			36,500	36,500			3,000	3,000
06	Apiary/Grain/D-Equip			2,995	2,995				
	Total For New Proposals	2.29		$154,242	$154,242	2.38		$218,774	$218,774

Executive New Proposals

1) Pesticide & Groundwater Personnel - The executive recommends that 1.00 FTE administrative support, grade 7, a modified position shared .50 FTE by groundwater management and .50 FTE by pesticide management, be approved as a permanent position. The department proposes to continue the employment to assist the Technical Services Bureau in processing and issuing pesticide registrations and licenses and filing of related materials and to assist the Field Services Bureau in preparing, typing, and filing groundwater correspondence and plans. Funding is state special revenue and federal special revenue.

2) Quarantines - The executive recommends $46,584 each year of the 1999 biennium from state special revenue to employ 1.00 FTE plant pest specialist, grade 14, experienced in pest management, surveillance, and regulatory pest control and 0.38 FTE consisting of two seasonal field scouts for a total of 793 hours to assist the specialist with pest surveys and monitoring of insects, diseases, and weeds in agricultural crops that are subject to quarantines or related compliance activities. Expenses associated with the additional FTE are budgeted. The department implemented two disease quarantines in the 1997 biennium to protect seed potato production and home gardens from potato blight and to protect wheat production from Karnal Bunt. Additional work is anticipated in the 1999 biennium.

3) Pesticide Equipment - The executive recommends $19,000 state special revenue and $3,000 federal special revenue in fiscal 1998 and $70,000 state special revenue and $70,000 federal special revenue in fiscal 1999 for the purchase of pesticide equipment. Purchases recommended for fiscal 1998 are multi-user computers and terminals and the remaining half of a new capillary electrophoresis instrument for analysis of new generation herbicides registered in Montana. Equipment recommended for fiscal 1999 is a bench top mass spectrometer system for high pressure liquid chromatography (HPLC) and high pressure capillary electrophoresis (HPCE). Pesticide products being registered require HPLC and HPCE spectrometry for analytical detection and confirmation of residues of new pesticides.

4) AG Groundwater Equipment - The executive recommends $29,900 state special revenue in fiscal 1998 to purchase a new computer and half of a capillary electrophoresis instrument for analysis of new generation herbicides registered in Montana, a power soil sampler for pesticide and groundwater investigations, three telelog recorders for three permanent monitoring well locations that currently do not have recording capabilities. The executive recommends $11,525 state special revenue in fiscal 1999 to purchase multi-user computers and terminals, a reporter multi-probe value pack for groundwater sampling, multi-user software for groundwater database, and surfer/grapher software to produce graphics.

5) F & F AA Equipment -The executive recommends $36,500 state special revenue in fiscal 1998 to purchase a new automated solid phase extractor used for sample dissolution, clean-up and/or concentration and $3,000 state special revenue in fiscal 1999 to purchase a new computer.

6) Apiary/Grain Equipment - The executive recommends $2,995 federal special revenue in fiscal 1998 to purchase a new Geographical Positioning System (GPS) hand-held unit compatible with the department's Geographic Information System (GIS). The GPS will accurately map apiaries which are required by law to be registered and located on known sites. Accurate mapping will improve timeliness and accuracy of services to beekeepers.

LFD Comment **- The above four new equipment proposals add $243,720 to the Executive Budget. However, because program present law adjustments for equipment decreased $265,527 for the biennium, the total appropriation request of $390,247 for the biennium is consistent with previous biennial budgets.**

6201 50

Department of Agriculture — **Agricultural Development**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	44.53	(2.50)	0.00	42.03	(2.50)	0.00	42.03	42.03
Personal Services	985,110	223,339	0	1,208,449	223,282	0	1,208,392	2,416,841
Operating Expenses	957,261	168,714	0	1,125,975	168,209	0	1,125,470	2,251,445
Equipment	18,654	74,146	10,600	103,400	75,346	4,500	98,500	201,900
Grants	952,395	214,505	0	1,166,900	214,505	0	1,166,900	2,333,800
Transfers	0	80,000	0	80,000	80,000	0	80,000	160,000
Total Costs	$2,913,420	$760,704	$10,600	$3,684,724	$761,342	$4,500	$3,679,262	$7,363,986
General Fund	116,800	92,385	0	209,185	92,487	0	209,287	418,472
State/Other Special	2,539,537	576,279	10,600	3,126,416	575,772	4,500	3,119,809	6,246,225
Federal Special	11,444	63,556	0	75,000	63,556	0	75,000	150,000
Proprietary	186,427	23,257	0	209,684	24,977	0	211,404	421,088
Expendable Trust	59,212	5,227	0	64,439	4,550	0	63,762	128,201
Total Funds	$2,913,420	$760,704	$10,600	$3,684,724	$761,342	$4,500	$3,679,262	$7,363,986

Program Description

The Agricultural Development Division administers programs to promote Montana agriculture through market development and enhancement. Assistance is given toward commercialization of traditional as well as innovative agricultural products and processes. The program provides support to the Alfalfa Seed Committee, the Montana Wheat and Barley Committee, the Montana Agricultural Development Council, and the Board of Hail Insurance. The division is comprised of the Rural Development, Wheat and Barley, and State Grain Laboratory Bureaus. The laboratory provides grades, protein determinations, malting barley germinations, and falling number tests for contract settlement prices between buyers and sellers of grain crops in Montana. The program work is mandated primarily in Title 80, MCA.

Funding

The Agricultural Development Division is funded with 92.2 percent state and other special revenue, consisting of wheat and barley sales taxes, grain testing fees, 0.76 percent of coal severance tax collections, alfalfa seed assessments, income tax checkoffs for Agriculture in Montana Schools, interest earnings, and private donations. The coal severance tax collections fund grants and operations in the Agriculture Development Council for Montana Growth Through Agriculture Act. Proprietary funds are from Hail Insurance, and expendable trust funds are from the Rural Development and Rehabilitation Program.

Mill levies assessed to wheat and barley fund the Wheat and Barley Research and Marketing Account. The mill levy for wheat was reduced from 10 to 8 mills per bushel and the mill levy on barley was reduced from 15 to 10 mills per hundred weight on July 1, 1996. The producer-directors of the Montana Wheat and Barley committee chose to lower the assessment on both wheat and barley to bring revenues in line with appropriated expenditures.

The expendable trust fund finances the Rural Development program from interest earnings on rural development loans. General fund finances approximately 94 percent of this division's administration (see LFD issue below), approximately 87 percent of the Agricultural Marketing Program, and approximately 60 percent of the Agricultural Statistics program.

LFD Issue - Agricultural Development Division administration is provided by 1.34 FTE, including the division administrator, and associated operating and equipment expenses. Management assistance is provided to the various programs in the division including Agricultural Finance, Hail Insurance, Agricultural Marketing, Agricultural Statistics, Agriculture Development Council, Wheat and Barley Committee, and the State Grain Laboratory. Although assistance is provided to all programs, those funded through expendable trust and proprietary revenue do not contribute to administration funding. The executive funds the division programs 5.7 percent general fund and 92.2 percent other funds (state special, proprietary, and expendable trust funds), but funds administration 94 percent general fund and 6 percent state special revenue (received through the Agriculture in Montana Schools tax checkoff).

As shown in Table 1, the accounts used to support these programs appear to be sufficient to provide the financial support. During a five-year period (fiscal years 1992-1996) the aggregate fund balance of the account entities in which revenues and expenditures are recorded for these divisions has increased by $3.3 million.

Table 1
Account Entities Supporting
Programs Administrated by
Ag Development Administration

Division	Account Entity #	Fund Balance FY92	Fund Balance FY93	Fund Balance FY94	Fund Balance FY95	Fund Balance FY96	Change from FY92-FY96
Agriculture Finance	08005	$2,439,173	$2,513,262	$2,591,209	$2,701,805	$2,820,841	$381,668
Hail Insurance	06052	3,478,823	0	4,252,892	5,625,402	4,830,300	1,351,477
State Grain Laboratory	02453	57,035	110,274	218,257	138,864	189,594	132,559
Alfalfa Seed Committee	02461	58,659	55,632	36,639	8,500	49,117	(9,542)
Ag Marketing	03118	(4,040)	3,637	5,404	(3,385)	0	4,040
Ag Development Council	02350	0	0	0	0	4,331	4,331
Wheat and Barley Bureau	02040	1,603,153	1,923,056	2,317,226	2,597,855	3,092,213	1,489,060
Total		$7,632,803	$4,605,861	$9,421,627	$11,069,041	$10,986,396	$3,353,593

As shown in Table 2, the general fund cost to support the agriculture development administration function during this same period has been $330,519. Of these expenditures, 91 percent have been for personal services and 9 percent for operations.

Table 2
Agriculture Development
Division Administration
Expenditures Fiscal Years1992-1996

Expenditures	FY92	FY93	FY94	FY95	FY96	Total	Percent of Total
Personal Services	$50,781	$51,308	$76,215	$49,410	$72,720	$300,434	90.9%
Operation Expenses	4,065	4,299	5,706	4,888	10,991	29,949	9 1%
Equipment	136	0	0	0	0	136	0.0%
Total	$54,982	$55,607	$81,921	$54,298	$83,711	$330,519	100.0%

If the legislature wishes to fund the administration of the program in a manner more representative of the program receiving the services, $86,377 general fund in fiscal 1998 and $86,461 in fiscal 1999 would be replaced by the same amounts of state special revenue, proprietary, and expendable trust funds. This type of allocation of costs is used by this agency in the funding of its Centralized Management Division.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment **- The present law adjustment for personal services is overstated by $72,720 and the adjustment for operating expenses is overstated by $10,991 because all expenditures related to this program's administration were not included in the base year expenditures shown. The reduction of 2.5 FTE is the result of the closure of the state grain laboratory at Wolf Point. Personal services costs also include a 3 percent vacancy savings rate for each year.**

6201 50

Department of Agriculture Agricultural Development			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	223,339	223,282
02		Inflation/Deflation	1,137	1,279
03		Fixed Costs	10,171	10,765
		Total Statewide Adjustments	$234,647	$235,326
Significant Present Law Adjustments				
04	91002	W&B/Transportation Contract	25,000	25,000
05	91003	Travel & Promotion Adj.	18,486	18,340
06	91004	Grants & Transfer Adj.	178,100	178,100
07	91005	W&B/Res & Mktg Grants	100,000	100,000
08	91006	Agriculture Assistance	66,872	68,005
09	91107	Ag Finance/Nd-Equip	2,098	1,598
10	91108	Hail Ins/Nd-Equip	957	2,957
11	91109	Marketing/Nd-Equip	300	0
12	91110	Ag Council/Nd-Equip	3,300	300
13	91111	Wheat & Barley/Nd-Equip	9,853	15,353
14	91112	Grain Lab/Nd-Equip	57,638	55,138
15	91113	Federal Fas Marketing Project	35,000	35,000
		Total Significant PL Adjustments	$497,604	$499,791
Other Base Adjustments			$28,453	$26,225
		Grand Total Present Law Adjustments	$760,704	$761,342

4) Wheat and Barley, Contract - The executive recommends $25,000 state special revenue each year of the 1999 biennium. The Wheat and Barley Committee will provide 25 percent of the funding ($25,000) and the Department of Transportation will provide 75 percent of the funding to contract for services to address issues affecting Montana's transportation system users, primarily shippers of Montana's agricultural products. The contract will be administered by the Department of Transportation through an administrative liaison group consisting of the Governor's Office and the Departments of Transportation, Agriculture, and Commerce. The contract will provide oversight of national transportation issues. The contractor will prepare and present transportation proposals for consideration by carriers, legislative bodies, and regulatory agencies such as the U.S. Surface Transportation Board. The contractor also will conduct research on specific transportation issues and provide policy and technical advice on transportation issues.

LFD Issue **- DOT personnel were aware of an arrangement with the Department of Agriculture to help fund and administer this contract; however, DOT did not submit a budget request for this purpose in the Executive Budget.**

5) Travel and Promotion Adjustment - An increase of $18,486 and $18,340 federal special revenue in fiscal 1998 and 1999 is recommended above the base for agriculture marketing. Increases are for foreign trade missions in Canada, Mexico, Chile, Brazil, and Pacific Rim countries for value-added industry promotion and development. This includes promotion of Montana

products at national and international trade and food exhibitions and numerous trade missions to or from the above-mentioned countries. In order to be effective in this effort, contractors will be hired to assist with shows and trade missions, the contracts for show space and travel expenses will increase, and printing, photo reproduction, postage, and telephone will increase. Funding will be derived from USDA/Foreign Agricultural Service (FAS) federal grants for promotion of Montana products.

***LFD Comment* - This request appears to be very similar to another requested present law adjustment - Federal FAS Marketing Projects (#15) - Please refer to that item for a description and further LFD discussion.**

6) Grants and Transfer Adjustments - Grants reflect an increase of $98,100 in fiscal 1998 and fiscal 1999 and transfers reflect an increase of $80,000 each year. Grants are awarded by the Agriculture Development Council to promote and enhance new and innovative agricultural products and processes. Included in this recommendation is a $90,000 grant to the Department of Commerce to support the foreign trade office. Fiscal 1996 actuals do not reflect the $90,000 transfer of authority to the Department of Commerce. Actual expenditures for fiscal 1996 plus the transfer of $90,000 total $131,900. The net increase for grants in fiscal 1998 will be $8,100 above the base. The Agriculture Development Council transferred $75,000 in fiscal 1996 to the department for program assistance to the council. The $75,000 is not reflected in the fiscal 1996 base budget. The executive recommendation is a net increase of $5,000 each year.

7) Wheat and Barley, Research and Marketing Grants - The executive recommends $100,000 state special revenue each year of the 1999 biennium to increase appropriation authority for grants to conduct wheat and barley research and marketing. Under the terms of GATT, the 1996 Farm Bill places increased emphasis on reduced subsidies to farmers, which in turn dictates that a greater percentage of the profits must come from the marketplace. Over the course of the next seven years, the anticipated span of this federal legislation, more producer dollars will be spent on international market development.

***LFD Issue* - The executive requests $1,026,900 state special revenue each year to fund grants ($926,000 as a base amount and $100,000 per year as a present law adjustment) for wheat and barley research and marketing. In the past, excess grant authority was used for other purposes than to increase grants. In fiscal 1996, more than $57,000 of excess grant authority was used to fund personal services and operating expenses. Included in these transfers were: 1) a salary increase for the bureau chief; 2) a reclassification of another position; and 3) payment of overtime. If it is the legislature's intent to provide funding for increased grants, it may wish to restrict the appropriation to that purpose.**

8) Agriculture Assistance - Contracts are proposed to increase $25,515 in fiscal 1998 and $26,648 in fiscal 1999 for Agriculture in Montana Schools (AMS) services, research and market development of Alfalfa Seed and a transportation contract increase addressing grain rail freight rates, line abandonment and rail related issues. Additionally, dues for membership to the U.S. Wheat Associates will increase $41,357 in fiscal 1998 and fiscal 1999 due to changes in the fee formula based on state grain production.

9) Ag Finance, Equipment Replacement - Equipment replacement is a net increase of $2,098 in fiscal 1998 and $1,598 in fiscal 1999 to replace a PC each year.

10) Hail Insurance, Equipment Replacement - Equipment replacement is a net increase of $1,043 to replace a PC each year. Recommended for fiscal 1999 replacement equipment is $3,043 for a PC and a photocopier.

11) Marketing, Equipment Replacement - Equipment replacement for fiscal 1998 is a net increase of $2,500 for a PC.

12) AG Council, Equipment Replacement - Equipment replacement for fiscal 1998 is a net increase of $3,300 above the base to replace two PCs. Recommended fiscal 1999 replacement equipment is $300 above the base for the replacement for one

PC.

13) Wheat and Barley, Equipment Replacement - Equipment replacement for fiscal 1998 is net increase of $9,853 to replace two PCs, a phone system, and a photocopier. Replacement equipment for fiscal 1999 is net increase of $15,353 to replace two PCs and a file server.

14) Grain Lab, Equipment Replacement - Equipment replacement for fiscal 1998 is net increase of $57,638 for a telephone system, two PCs, printers, whole grain analyzer, falling numbers instrument, dockage tester, and two mettler scales. Recommended fiscal 1999 replacement equipment is $55,138 above base to replace a van, file server to meet Oracle standards, two PCs, printers, dockage tester, two mettler scales, and a falling numbers grinder.

***LFD Issue* - The executive requests a present law adjustment of $112,776 state special revenue for the biennium ($57,638 in fiscal 1998 and $55,138 in fiscal 1999) for non-discretionary equipment. Appropriation authority approved for equipment by the 1995 legislature was used for other purposes. In fiscal 1996, nearly $45,000 of excess equipment authority was used to fund personal services and operating expenses for the Wheat and Barley Committee. Included in these transfers were: 1) a salary increase for tbe bureau chief (an exempt position); 2) funding of a reclassification of another position; 3) payment of overtime; and 4) funding of contracted services. If it is the legislature's intent to provide funding for additional equipment, it may wish to restrict the appropriation to that purpose.**

15) Federal FAS Marketing Projects - The executive recommends $35,000 federal special revenue authority each year of the 1999 biennium for projects to invigorate and stimulate Montana's economy by increasing the number of foreign value-added trade missions and increasing Montana representation at international food and trade shows. In addition, the department plans to submit proposals to promote the exporting of Montana livestock genetics in collaboration with the U.S. Livestock Genetics Export, Inc. which has cooperator status with the USDA-FSA. Funding is available through the USDA FAS for approved projects. This recommendation is for additional authority above the base of $40,000.

***LFD Issue* - This present law adjustment, coupled with the present law adjustment for increased foreign travel in item #5 - (Travel and Promotion Adjustments) totals $106,826 for the 1999 biennium. Both present law adjustments refer to expenditure to support increased foreign trade missions to promote the value-added industry of Montana products. If it is the intent of the legislature to increase the foreign travel appropriation, it may wish to restrict its action to only one of the requests. If it is the intent of the legislature to maintain FAS marketing at its present level, adjustments would be added.**

Other Base Adjustments - Other base adjustments are a combination of increases in legal fees, court costs, postage, minor equipment and supplies, in-state and out-of-state meals, lodging and associated travel expenses, and office supplies in nine programs contained in the Agricultural Development Division.

6201 50
Department of Agriculture **Agricultural Development**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Wheat & Barley/D-Equip			10,600	10,600			4,500	4,500
Total For New Proposals			$10,600	$10,600			$4,500	$4,500

Executive New Proposals

1) Office Equipment - The executive recommends $10,600 state special revenue in fiscal 1998 and $4,500 state special revenue in fiscal 1999 to purchase Wheat and Barley Bureau office equipment such as multi-media VCR/TV, FAX machine, color laserjet printer, full page color scanner, auto paper folder, and a binding system. The equipment would aid in briefing foreign trade teams and educating farm organizations, teachers, producers, and the public about wheat and barley issues and agriculture in general. The multi-media unit would give the bureau the capability to preview new videos and use existing videos from its library to assist its market promotion and development efforts.

6501 00

Agency Proposed Budget					Department of Commerce			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	170.56	0.00	8.47	179.03	0.00	11.25	181.81	179.03
Personal Services	5,388,996	672,079	236,473	6,297,548	676,319	313,614	6,378,929	12,676,477
Operating Expenses	6,380,973	676,752	549,652	7,607,377	672,604	440,375	7,493,952	15,101,329
Equipment	274,887	120,913	47,350	443,150	1,013	3,000	278,900	722,050
Grants	24,363,602	6,038,859	2,273,737	32,676,198	6,669,153	3,197,737	34,230,492	66,906,690
Debt Service	2,719	9,173	0	11,892	12,929	0	15,648	27,540
Total Costs	$36,411,177	$7,517,776	$3,107,212	$47,036,165	$8,032,018	$3,954,726	$48,397,921	$95,434,086
General Fund	1,637,721	67,249	862,404	2,567,374	60,208	762,939	2,460,868	5,028,242
State/Other Special	9,644,348	1,065,730	292,126	11,002,204	932,370	318,545	10,895,263	21,897,467
Federal Special	25,129,108	6,384,797	1,952,682	33,466,587	7,039,441	2,873,242	35,041,791	68,508,378
Total Funds	$36,411,177	$7,517,776	$3,107,212	$47,036,165	$8,032,018	$3,954,726	$48,397,921	$95,434,086

Mission Statement

To enhance the quality of life in the state by working with our economic and community development partners to foster diversification of the economic base through business creation, expansion, and retention; necessary improvement of public infrastructure; and providing a reasonable, customer oriented, regulatory environment.

Agency Description

The Department of Commerce, provided for in Title 2, Chapter 15, part 18, MCA, provides support and leadership regarding commerce-related activities within Montana, fosters the diversification and expansion of the state's economic base, and ensures a regulatory environment that facilitates business growth, professional integrity, and protection of the consuming public. The Department partners with and serves a variety of individuals and groups including economic and community development organizations, businesses, communities, local governments, elected officials, and the public.

The Department's various programs support two major functional areas: 1) economic and community development, which includes the following programs: Economic Development Division, Montana Promotion Division, Board of Investments, Montana Science and Technology Alliance, Montana Health Facility Authority, Housing Division, and Local Government Assistance Division; and 2) business and regulatory services, which includes the following programs: Financial Institutions Division, Professional & Occupational Licensing Bureau, Building Codes Bureau, Weights & Measures Bureau, Horse Racing Bureau, and Legal and Consumer Affairs. The Department also oversees the Montana Lottery operations.

6501 00
Department of Commerce **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	170.56	8.47	179.03	170.56	11.25	181.81	170.56	179.03
Personal Services	6,061,075	236,473	6,297,548	6,065,315	313,614	6,378,929	11,647,561	12,676,477
Operating Expenses	7,057,725	549,652	7,607,377	7,053,577	440,375	7,493,952	12,976,906	15,101,329
Equipment	395,800	47,350	443,150	275,900	3,000	278,900	395,782	722,050
Grants	30,402,461	2,273,737	32,676,198	31,032,755	3,197,737	34,230,492	55,554,403	66,906,690
Transfers	0	0	0	0	0	0	0	0
Debt Service	11,892	0	11,892	15,648	0	15,648	9,119	27,540
Total Costs	$43,928,953	$3,107,212	$47,036,165	$44,443,195	$3,954,726	$48,397,921	$80,583,771	$95,434,086
General Fund	1,704,970	862,404	2,567,374	1,697,929	762,939	2,460,868	3,311,142	5,028,242
State/Other Special	10,710,078	292,126	11,002,204	10,576,718	318,545	10,895,263	19,495,684	21,897,467
Federal Special	31,513,905	1,952,682	33,466,587	32,168,549	2,873,242	35,041,791	57,776,945	68,508,378
Proprietary	0	0	0	0	0	0	0	0
Non-Expendable Trust	0	0	0	0	0	0	0	0
Total Funds	$43,928,953	$3,107,212	$47,036,165	$44,443,195	$3,954,726	$48,397,921	$80,583,771	$95,434,086

6501 02 **Department of Commerce** Program Proposed Budget					**Weight & Measures Bureau**			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	11.00	0.00	0.00	11.00	0.00	0.00	11.00	11.00
Personal Services	308,769	37,208	0	345,977	37,684	0	346,453	692,430
Operating Expenses	153,474	26,200	0	179,674	26,059	0	179,533	359,207
Equipment	97,126	(56,626)	0	40,500	(3,126)	0	94,000	134,500
Total Costs	$559,369	$6,782	$0	$566,151	$60,617	$0	$619,986	$1,186,137
State/Other Special	559,369	6,782	0	566,151	60,617	0	619,986	1,186,137
Total Funds	$559,369	$6,782	$0	$566,151	$60,617	$0	$619,986	$1,186,137

Program Description

The Weights & Measures Bureau is responsible for licensing, inspecting, testing, and certifying all weighing or measuring devices used in commercial transactions in the State of Montana. The bureau also enforces laws and regulations pertaining to quantity control of prepackaged goods and quality control of petroleum products. The bureau also is responsible for maintaining the state standards of mass and volume which are used to calibrate other mass or volume standards used in testing commercial devices.

The program work is mandated in Title 30, Chapter 12, and Title 82, Chapter 15, MCA.

Funding

The program work is entirely supported by state special fee revenue collected from license and inspection fees on weighing devices, petroleum dealers, and liquefied petroleum dealers. In biennia prior to the 1995 biennium, the program was funded from the general fund and revenue collections were deposited to the general fund.

6501 02 **Department of Commerce** Performance Based Budget					**Weight & Measures Bureau**			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	11.00	0.00	11.00	11.00	0.00	11.00	11.00
Performance Based	559,369	6,782	0	566,151	60,617	0	619,986	1,186,137
Total Costs	$559,369	$6,782	$0	$566,151	$60,617	$0	$619,986	$1,186,137
State/Other Special	559,369	6,782	0	566,151	60,617	0	619,986	1,186,137
Total Funds	$559,369	$6,782	$0	$566,151	$60,617	$0	$619,986	$1,186,137

Performance-Based Budget

The Weights & Measures Bureau is one of fourteen state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the weights & measures bureau is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

The proposed program goals and associated performance targets for each year of the 1999 biennium are as follows:

Goal 1: Maximize the testing, inspection, and certification of commercially-used scales in Montana.

Performance Measure/Target: Test, inspect, and certify on an annual basis 90% of all licensed, commercial scales.

	FY94	FY95	FY96 (Estimated)	FY94-FY96 Average
Scales Licensed	6,629	6,756	6,728	6,704
Scales Tested, Inspected, and Certified	5,091	6,431	5,900	5,807
Inspection %	76.80%	95.19%	87.69%	86.62%

Explanation: Devices are licensed, tested, inspected, and certified on a calendar year basis. Performance measures for each year of the 1999 biennium are based upon the approximate average of fiscal 1994, fiscal 1995, and estimated fiscal 1996 activity. Testing of devices is entirely dependent upon the weather, availability of equipment, personnel, and the scheduling requirements of specific devices such as livestock scales.

Goal 2: Maximize the testing, inspection, and certification of retail and wholesale petroleum pumps and meters and liquid petroleum gas (LPG) meters used throughout Montana.

Performance Measure/Target: Test, inspect, and certify 85 percent of all licensed retail and wholesale petroleum dispensing pumps or meters and 85 percent of all liquid petroleum gas (LPG) meters on an annual basis.

	FY94 Actual	FY95 Actual	FY96 Estimated	FY94-FY96 Average
Pumps & Meters Licensed	11,136	12,167	12,527	11,943
Pumps & Meters Tested, Inspected, and Certified	7,367	11,878	10,000	9,748
Inspection %	66.15%	97.62%	79.83%	81.62%
LPG Gas Meters Licensed	515	530	543	529

LPG Gas Meters Tested, Inspected, and Certified	538	378	405	440
Inspection %	104.47%	71.32%	74.59%	83.19%

Explanation: Devices are licensed, tested, inspected, and certified on a calendar year basis. Performance measures for each year of the 1999 biennium are based upon the approximate average of fiscal 1994, fiscal 1995, and estimated fiscal 1996 activity. Testing of LPG devices is entirely dependent upon scheduling the one prover that is used throughout Montana.

Goal 3. Maximize the inspection and testing of pre-packaged consumer goods offered for sale in Montana.

Performance Measure/Target: Inspect and test, on an annual basis, a minimum of 500 lots of pre-packaged consumer goods to ensure compliance. These will include both standard and random packaged goods. Inspections and tests will be conducted according to nationally-recognized statistical standards.

Explanation: In the past, the bureau has primarily inspected meat packaged at the retail level for net content. However, in January, 1996, the bureau initiated a new package testing program that uses a nationally-recognized testing procedure applicable to both random and standard packages. (Standard packages refer to those with a consistent stated weight such as a standard 16 ounce box of breakfast cereal, while random packages are those same size packages with varying amounts of the same commodity in them, e.g., packages of hamburger in the local grocery store.) The 500-lot performance target is based on both the past program and the limited amount of data from the current program. Since the historical data base for packaged goods testing is limited, this performance target may have to be modified in the future.

Goal 4: Maximize the testing for octane content of the various grades of gasoline offered for sale to the general public throughout Montana.

Performance Measure/Target: Test for octane content a minimum of 300 samples of various grades of gasoline that are offered for sale to the general public on an annual basis statewide.

Explanation: In previous years, octane determination testing was done using an independent outside testing laboratory. This method of testing has proven to be very time consuming and extremely costly on a per-sample testing basis. In June, 1996, the bureau purchased its own portable octane analyzer for use in the field. This analyzer allows the bureau to test and obtain results at the pump. The performance target is based upon the best estimate of the number of octane samples that can be tested on an annual basis statewide. Since the historical data base for octane testing with the new analyzer is non-existent, this performance target may have to be modified in the future.

The bureau also has the following goals and objectives, which are primarily of a secondary nature, and are therefore not included as part of the PBB pilot project:

1) Remove from use all unlicensed and inaccurate weighing or measuring devices.

2) Participate in all "round robin" exercises conducted by the National Institute of Standards and Technology to maintain the integrity of the mass and volume standards.

3) Calibrate on an annual basis all of the bureau field standards and on a semi-annual basis all registered servicemembers' equipment.

4) Respond to every complaint registered to either the bureau office or one of the field inspectors.

LFD Comments - Although the program has delineated some key functional areas for performance measurement, several questions arise as to various aspects of the program and how performance based budgeting can be appropriately applied.

1) What are the overarching goals of the program? For example, does the bureau exist to protect consumers, to reduce fraud or unfair business practices, to monitor and regulate commercial activities, etc. If the major goals of the program were more clearly defined or articulated in the PBB narrative, the supporting goals and/or strategies would be more meaningful to policymakers for budgeting and/or decision-making purposes.

2) In theory, the costs of each major activity or function of the program should be delineated in order to make the PBB exercise practical for budgeting purposes. However, the narrative does not identify specific budgetary data with regard to the budgeted costs of each functional activity.

3) The department lists variables (see "Explanation" under Goal 1) which it says affects/impacts its ability to meet certain goals/objectives including: 1) weather; 2) availability of equipment; 3) availability of personnel; and 4) certain scheduling requirements of specific devices. If these variables determine the program's performance, as suggested, then attempts should be made to effectively control these variables or to adequately incorporate them into the program planning process.

4) How does Montana's Weights & Measures program compare to similar programs in other states with regard to performance and functional responsibilities? What are the normal standards of performance or typical program functions? Is testing and certification of weighing devices performed often enough in the state? Is a 90 percent testing and certification rate acceptable and reasonable, or is it above or below the norm?

5) What are Montana's special needs regarding commercial weighing and measuring? Does the program focus on Montana's current needs? What activites of the bureau have the most significant consequences to the state's commercial activities? What impacts occur if the delineated targets are not achieved? For example, is public health or safety in jeopardy if certain activities are not performed?

6) The bureau indicates that it initiated a new package testing program in January 1996. If pre-packaged testing was not a function of the program before, what is the justification for expansion into this area? What is the benefit to the state to spend resources on this activity? Will the new/expanded function divert resources away from current key functional responsibilities of the bureau?

7) How will the bureau achieve what appears to be somewhat higher performance standards than in the past, as identified within the performance targets listed? With the exception of some new equipment requested in the 1999 biennium ($134,500), it would appear that the bureau will be operating at the same budgetary and FTE level as in the 1997 biennium. How will performance targets be achieved when certain program functions appear to be expanding with no corollary increase in funding or personnel?

Executive Present Law

1) Replacement Equipment -The proposal is for three mobile provers used to test retail gasoline dispensers, four pickups with toppers, and a two-and one-half ton truck. The request is a net decrease of $56,626 in fiscal 1998 and $3,126 in fiscal 1999.

2) Inspectors Terminations & Retirements - In the base year there were only six inspectors traveling throughout the state due to terminations and retirements. The adjustment is for a full staff of eight inspectors. An increase of $15,255 each year of the 1999 biennium is for gasoline, meals, lodging, and vehicle repair and mainenance.

6501 02 Department of Commerce Weight & Measures Bureau Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	37,208	37,684
02		Inflation/Deflation	1,672	2,791
03		Fixed Costs	(1,368)	(2,464)
	Total Statewide Adjustments		$37,512	$38,011
Significant Present Law Adjustments				
04	79282	Equipment Replacement - Pbb	40,500	94,000
	Total Significant PL Adjustments		$40,500	$94,000
Other Base Adjustments			($71,230)	($71,394)
	Grand Total Present Law Adjustments		$6,782	$60,617

3) National and Regional Conferences - The bureau chief is required to attend both the national and regional weights and measures conferences in order to represent Montana and to keep abreast of changes or regulations affecting the state. In the 1997 biennium, the bureau chief drove his personal car to the regional conference because of its close proximity in Salt Lake City. There is a decrease in out-of-state personal car mileage of $359. Since the conferences in the next biennium are not being held close to Montana it will be necessary to fly commercially to these meetings. The metrologist is also required to attend the regional meeting to maintain professional certification. Therefore, out-of-state commercial transportation is increased by $1,130 and out-of- state lodging by $445.

4) Laboratory Rent Increase - The laboratory site at 1430 Dodge Street, Helena, has a ten-year lease with an escalation clause. The increase is $720 each year of the 1999 biennium.

6501 36 Department of Commerce Program Proposed Budget					Banking & Financial Division			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	25.25	0.00	0.00	25.25	0.00	0.00	25.25	25.25
Personal Services	777,067	117,037	0	894,104	118,414	0	895,481	1,789,585
Operating Expenses	310,535	31,664	0	342,199	28,697	0	339,232	681,431
Equipment	40,180	(7,780)	0	32,400	14,820	0	55,000	87,400
Total Costs	$1,127,782	$140,921	$0	$1,268,703	$161,931	$0	$1,289,713	$2,558,416
State/Other Special	1,127,782	140,921	0	1,268,703	161,931	0	1,289,713	2,558,416
Total Funds	$1,127,782	$140,921	$0	$1,268,703	$161,931	$0	$1,289,713	$2,558,416

Program Description

The Financial Institutions Division is responsible for the supervision, regulation and examination of 83 state-chartered banks, three trust companies, and 31 branch banks. The division also examines and regulates 14 state-chartered credit unions, 51 consumer loan companies, 136 sales finance companies, and nine private escrow companies. Supervision of regulated financial businesses is accomplished through on-site safety and soundness examinations conducted by division examiners. The division is required to examine banks at least once every 24 months. Credit unions and consumer loan companies are examined annually. Specified lending areas of the Board of Investments are also examined annually. The purpose of the supervisory function is to investigate the methods of operation and determine whether or not these institutions are operating in a safe and sound manner.

Financial institutions responsibilities are mandated primarily in Titles 2, 31, and 32, MCA.

Funding

The division is funded with revenue generated from bank assessments and application fees, credit union supervisory and examination fees, consumer loan examination fees, and consumer loan/sales finance licenses.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6501 36 Department of Commerce Banking & Financial Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	116,745	117,868
02		Inflation/Deflation	1,206	840
03		Fixed Costs	2,586	(95)
		Total Statewide Adjustments	$120,537	$118,613
Significant Present Law Adjustments				
04	79199	Financial Replacement Pcs	0	0
05	91361	Equipment Replacement	(7,780)	14,820
06	91362	Financial Rent Increase	8,263	8,987
07	91363	Overtime And Per Diem Increases	292	546
08	91364	Indirect Administrative Costs	25,437	24,793
		Total Significant PL Adjustments	$26,212	$49,146
Other Base Adjustments			($5,828)	($5,828)
		Grand Total Present Law Adjustments	$140,921	$161,931

5) Equipment Replacement - Replacement equipment for fiscal 1998 is a net reduction of $7,780 from the base and includes seven personal computers, a laser printer, and other office equipment for a total of $32,400. Fiscal year 1999 replacement equipment is $14,820 more due to purchase of a $21,000 seven-passenger mini-van, offset by fewer computers being replaced.

6) Rent and Utilities Increase - Through executive reorganization the division moved from state-owned office space to privately-owned office space in Helena. The amount of the rent costs, along with privately-provided janitorial, maintenance and utilities, that exceed the fiscal 1996 base amount is requested. In addition, the office maintained in Billings for the use of seven to eight employees has a three year lease with an escalation clause. The total net request is for $8,263 in fiscal 1998 and $8,987 in fiscal 1999.

7) Overtime and Per Diem Increases - The increase in overtime and per diem, $292 in fiscal 1998 and $546 in fiscal 1999, over the 1996 actuals is due to the cost of the pay plan and six members of the banking board attending five meetings per year.

8) Indirect Administrative Costs - Internal support costs for this program increased significantly. The increase in the administrative cost is discussed in the Director/Management Services Division portion of the Executive Budget.

***LFD Comment* - The indirect costs charged by the Director/Management Services Division are discussed in the "Proprietary Rate Setting and State Fund" section. The fiscal 1996 base expenditure for indirect administrative costs was $60,419. The present law adjustments of $25,437 and $24,793 in fiscal 1998 and 1999 respectively represent a 42 percent increase in the 1999 biennium.**

Other Base Adjustments - A reduction in the request for temporary services is the most significant adjustment.

6501 39
Department of Commerce
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				POL Bureau				
FTE	21.28	0.00	3.20	24.48	0.00	4.25	25.53	24.48
Personal Services	636,857	146,303	85,721	868,881	147,017	113,302	897,176	1,766,057
Operating Expenses	2,613,064	459,753	162,388	3,235,205	436,271	162,186	3,211,521	6,446,726
Equipment	28,184	(2,684)	9,900	35,400	(25,184)	0	3,000	38,400
Total Costs	$3,278,105	$603,372	$258,009	$4,139,486	$558,104	$275,488	$4,111,697	$8,251,183
General Fund	0	0	0	0	0	0	0	0
State/Other Special	3,278,105	603,372	258,009	4,139,486	558,104	275,488	4,111,697	8,251,183
Total Funds	$3,278,105	$603,372	$258,009	$4,139,486	$558,104	$275,488	$4,111,697	$8,251,183

Program Description

The Professional and Occupational Licensing (POL) Bureau is charged with licensing and regulating persons engaged in specific professions and occupations as designated by the legislature. By statute, the professional boards and occupational licensing programs are empowered to protect the health, safety, and welfare of the citizens of Montana; adopt rules to conduct business; set procedures; discipline peers; evaluate potential licensees; hold oral interviews; evaluate continuing education programs; hold hearings for disciplinary action; and work in conjunction with associations to maintain high standards of excellence for the regulated professions and occupations within the state. Currently there are 198 board members, who are appointed by the Governor, serving on professional licensing boards. The bureau typically issues over 65,000 professional and occupational licenses annually.

The bureau provides all the professional, technical, administrative, legal, and clerical services required by the thirty-four professional boards and four occupational licensing programs authorized by state statutes. Services provided include corresponding with the public and licensees; processing applications for licensees; issuing licenses granted by the boards and programs; renewing licenses; requiring and enforcing continuing education credits for licensure where specified by law; levying fines under the jurisdiction of appropriate boards and programs; inspecting businesses where appropriate; and taking minutes of board meetings and hearings. The bureau also arranges for meeting and/or examination facilities for each board and licensing program; administers and grades examinations where required; provides legal staff, investigators, and inspectors to investigate legal infractions upon requests from the boards and programs; and initiates disciplinary actions and other legal actions against licensees and unlicensed practitioners. These administrative support functions enable the boards and programs to provide effective and efficient services to the public.

The Professional and Occupational Licensing Bureau work is mandated in Title 2, Chapter 15, part 18, and Titles 37, 23, 39, and 50, MCA

Funding

The licensing boards in the POL Bureau are funded from state special revenue obtained from license fees set by each board. As per 37-1-134, MCA, licensing boards are required to establish fees commensurate with costs that are associated with specific program areas. Such areas include license application, examinations, license renewals, reciprocity, continuing education and administrative costs.

POL Bureau administration costs are funded through assessments (recharges) on all boards and deposited in a proprietary fund. The 1999 Executive Budget request is recommending an internal recharge rate averaging 33.5 percent of each board's revenues for the 1999 biennium, which amounts to a 3 percent increase over the 1997 biennium rate. This internal charge provides funding for various administrative, clerical and legal support services provided to the boards. A more detailed discussion of the rate charged to the boards is discussed in the "Proprietary Rate Setting and State Fund" section.

Executive Present Law

6501 39

Department of Commerce POL Bureau Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	112,976	113,690
02		Inflation/Deflation	5,414	4,310
03		Fixed Costs	751	516
		Total Statewide Adjustments	$119,141	$118,516
Significant Present Law Adjustments				
04	91391	Board And Personnel Expenses	33,327	33,327
05	91392	Contracts For Outside Help	178,073	178,073
06	91393	Communications	6,690	6,890
07	91394	Travel Expenses	32,029	25,406
08	91395	Rent	19,812	20,456
09	91396	Indirect Administrative Costs	217,152	199,916
10	91397	Dues, Training & Meeting Costs	3,565	3,565
11	91398	Printing Costs	6,631	6,631
12	91399	Boiler/Crane Equipment	25,500	3,000
		Total Significant PL Adjustments	$522,779	$477,264
Other Base Adjustments			($38,548)	($37,676)
		Grand Total Present Law Adjustments	$603,372	$558,104

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Board and Personnel Expenses - The net increase of $33,327 each year of the 1999 biennium is for staff overtime and board per diem expenses. An increase in the Board of Medical Examiners for $7,800 each year is for per diem for 11 members to attend six board meetings, three days in length, attend annual meetings, and participate in conference calls. Per diem for five members of the Board of Psychologists to travel to two meetings for three days increased $3,250 each year. The fiscal 1996 base does not show the increases in activities the Board of Nursing began in fiscal 1997. The board is obligated to teach the public about safe nursing care and to educate nurses about the changes in laws and rules. The request for an increase in per diem of $3,400 is for board members to conduct educational sessions, board meetings, and telephone conference meetings.

5) Contracts for Outside Help - The net increase of $178,073 each year of the 1999 biennium is requested. The Board of Nursing requests an increase of $10,948 each year that includes $6,920 in contracts with visitor consultants to conduct nursing program surveys to determine compliance; $2,676 legal fees and court costs for court reporters, the use of the Attorney General's services, and ARM changes; and $1,352 for temporary help during license renewal periods. The Board of Realty Regulation request is for $25,193 each year for an education caravan at 12 sites throughout the state; contract with a database company to check on new licensees; and a contract with property management pre-licensing.

6) Communications - The net increase for communications is for $6,690 in fiscal 1998 and $6,890 in fiscal 1999. The Board of Outfitters request is for $3,541 each year for newspaper advertising to publish legal notices for net client hunting use expansion requests.

7) Travel Expenses - The net increase for travel is $32,029 in fiscal 1998 and $25,406 in fiscal 1999. The Board of Clinical Lab Practitioners request for an increase is due to a new board member to travel from Kalispell. The former member lived

in Helena. The increase travel for the Board of Medical Examiners is due to the appointment of six new board members traveling more miles per meeting than previous board members. Travel costs also increase to allow boards members to attend national conferences and meetings.

8) Rent - The net increase of $19,812 in fiscal 1998 and $20,456 in fiscal 1999 includes rent for examination sites for the Board of Public Accountants and for other boards administering tests.

9) Indirect Administrative Costs - The increase in indirect administrative costs, $217,152 in fiscal 1998 and $199,916 in fiscal 1999, is discussed in the Director/Management Services Division portion of the budget.

***LFD Comment* - The indirect administrative costs are actually comprised of two separate indirect costs, the POL board recharges and the Management Services Division recharges. The bulk of this increase is from POL recharges at $195,133 in fiscal 1998 and $178,454 in fiscal 1999. Internal charges relating to the Management Services division, which are discussed in the "Proprietary Funds and State Fund" section, comprise the remainder of the increase.**

Secondly, since these indirect administrative charges were calculated assuming funding of present law adjustments and new proposals, the recharge amounts may need recalculation in the event that a significant portion of these are not approved/funded by the legislature.

10) Dues, Training & Meeting Costs - The net increase is $3,565 each year of the 1999 biennium and includes various requests to attend national meeting requiring registration fees. The Board of Physical Therapists request attendance at an annual meeting that was not attended in fiscal 1996.

11) Printing Costs - The net increase is $6,631 each year of the biennium and includes increase costs to print certificates, application and renewal license forms, and frequent rule changes.

12) Boiler/Crane Equipment - The licensing of construction blasters, crane, and boiler operators was transferred to the Department of Commerce. When the programs were transferred from the Department of Labor and Industry, the truck that the crane and construction blaster inspector used was not transferred. The request is for a half-ton four wheel drive pickup with a topper, safety equipment for the vehicle, and training and reference materials for $25,500 in fiscal 1998 and $3,000 for additional training and reference materials in fiscal 1999.

***LFD Issue* - The executive request includes a half-ton truck to implement the Boiler/Crane program, a function which was transferred in the last biennium from the Department of Labor and Industry to DOC. As mentioned above, the truck, which was used to implement the Boiler/Crane program in the Department of Labor and Industry, was not transferred to DOC. The legislature may wish to ask the agency the reason that a transfer did not occur and also how this function has been carried out in the last biennium without the use of the truck. Since the transfer of this program to DOC, the licensing portion of the program has been handled by the POL Bureau and the boiler inspection responsibilities handled within the Building Codes Bureau. For further discussion on related executive requests for this program, refer to LFD Issues under the Building Codes new proposals section.**

6501 39
Department of Commerce — POL Bureau
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Hearing Aid - Board Members			3,474	3,474			3,474	3,474
02	Social Workers Continuing Ed			50,000	50,000			50,000	50,000
03	Occ. Therapists Continuing Ed			10,000	10,000			10,000	10,000
04	Administrator			37,250	37,250			37,250	37,250
05	R E Appraisers Fte	0.75		33,026	33,026	1.00		37,378	37,378
06	Accountants Fte	0.19		4,556	4,556	0.25		5,756	5,756
07	Pels Fte - Ce & Record Mgmt	0.75		36,115	36,115	1.00		34,932	34,932
08	Realty Reg Fte	0.38		40,828	40,828	0.50		44,802	44,802
09	Cosmetology Fte	0.75		19,239	19,239	1.00		24,903	24,903
10	Pharmacy Fte	0.38		20,952	20,952	0.50		24,424	24,424
11	Boiler/Crane Equip & Vehicle								
12	Dentistry - Board Member			2,569	2,569			2,569	2,569
13	Pol Fte Pc								
	Total For New Proposals	3.20		$258,009	$258,009	4.25		$275,488	$275,488

Executive New Proposals

1) Hearing Aid Board Members - The Board of Hearing Aid Dispensers requests two new board members, increasing the members to seven. The request is for another public member and an audiologist. Board members determine the outcome of disciplinary action cases as a result of a newly-created Complaint Screening Panel. In processing complaints, certain members serve on the panel. The assigned members of the panel may not subsequently participate in a hearing of the case. The board believes that there should be more than one or two members determining the acceptance or denial of final orders issued in disciplinary action cases. The request is for $800 in personal services and $2,674 in operating each year.

2) Social Workers Continuing Education - Continuing education is required by the Board of Social Workers and Professional Counselors for both licensed clinical social workers and clinical professional counselors. The board request is for $50,000 each year of the biennium for contracted services to an outside provider to assume the responsibilities of developing and coordinating continuing education programs.

3) Occupational Therapists Continuing Education - The Board of Occupational Therapists requires continuing education for licensees. The request is for $10,000 each year of the biennium for contracted services to have an outside contractor assume the responsibilities of developing and coordinating four half-day continuing education courses.

4) Accountants Exam Administrator - The board has the responsibility of administration of semi-annual CPA examinations with demanding testing procedures in three different locations. Close supervision and control of on-site examination materials, storage, distribution, and collection must be maintained. The request of $37,250 each year of the 1999 biennium is for contractor expenses, including salaries, computer software, office space, and insurance.

5) Real Estate Appraisers FTE - The request is for 0.75 FTE in fiscal 1998 and 1.00 FTE in fiscal 1999 to employ a general certified appraiser responsible for reviewing application experience appraisal reports, completing audit processes, reviewing educational courses, conducting investigations, and testifying as an expert witness. The board members are prohibited from

engaging in expert witness activities due to their status as adjudicators. The federal government requests audits of appraisals. Currently, there is no one on staff to perform the functions and the workload of the board does not allow them to do so. The request is for $33,026 in fiscal 1998 and $37,378 in fiscal 1999. Office furniture and computer equipment is included in fiscal 1998.

6) Accountants FTE - The request is for 0.19 FTE in 1998 and 0.25 FTE in 1999 to administer current level programs due to a substantial increase in licensees and examination candidates. The request is $4,556 in fiscal 1998 and $5,756 in fiscal 1999.

7) Professional Engineers and Land Surveyors FTE Continuing Education and Records Management - Records retention has not been done for the Board of Professional Engineers and Land Surveyors (PELS) since 1947. The proposal funds microfilming all invalid, current, and continuing registration files. The records management system will free up office space and promote more efficient handling of records. An expansion of the PELS authority to require continuing education as a prerequisite to license renewal, approved by the 1995 legislature, necessitates data entry of continuing education information on over 3,400 licensees. The request is for 0.75 FTE in fiscal 1998 and 1.00 FTE in fiscal 1999 for operating expense, computer equipment, microfilming, and other office equipment. The cost is $36,115 in fiscal 1998 and $34,932 in fiscal 1999. The funding is through recharges allocated to supported boards and programs attached to the POL.

8) Realty Regulation FTE - The request is for a 0.38 FTE in fiscal 1998 and 0.50 FTE in fiscal 1999 to add a training and development specialist for the Board of Realty Regulation to support the expanded realty licensee education requirements. The proposal will provide a newsletter to licensees and the current education program will be audited for compliance with existing requirements, and information will be developed and distributed to consumers on areas of realty license responsibilities, fair housing, complaint procedures, and agency relationships. The funding of $40,828 in fiscal 1998 and $44,802 in fiscal 1999 will provide personal services and operating to include continuing education program development and travel.

9) Cosmetologist FTE - The Board of Cosmetologists have had a workload increase because of the rising number of cosmetologist, manicurists, schools, salons, and booth rentals. A 0.75 FTE in fiscal 1998 and 1.00 FTE in fiscal 1999 for a licensing and certification technician is requested to assist the program manager in carrying out the functions of licensing, collection of fees, and administrative services on a daily basis. The request is $19,239 in fiscal 1998 and $24,903 in fiscal 1999 for personal services and operations.

10) Pharmacy FTE - The request is for a 0.38 FTE in fiscal 1998 and 0.50 FTE in fiscal 1999 for a compliance specialist to review pharmacy technician utilization plans, including checking on training given to technicians, conducting continuing education audits for pharmacists, and observing the procedures followed by pharmacists when counseling patients. The present workload of the board office does not allow these inspections to be performed by a staff person. The request is $20,952 in fiscal 1998 and $24,424 in fiscal 1999 for personal services and operations.

11) Dentistry Board Member - The Board of Dentistry proposes to add a dental hygienist member, thereby increasing the representation for dental hygienists to two. The request is for $2,568 both years of the 1999 biennium.

Table 1
Professional & Occupational Licensing Boards
Account Balances*

A/E	Name	FY 1996 Revenues	FY 1996 Expenditures	Difference +/(-)	FY 1996 Ending Fund Balance	Fund Balance As a Percentage of Annual Expenditures
2821	Radiologic Technologists	$41,930	$16,691	$25,239	$130,375	781%
2818	Respiratory Care	18,378	5,329	13,049	32,343	607%
2814	Occupational Therapists	14,835	13,425	1,410	70,300	524%
2815	Social Workers	56,090	47,292	8,798	203,096	429%
2855	Speech Pathologists	12,013	7,577	4,436	31,260	413%
2078	Professional Engineers	161,635	82,140	79,495	334,985	408%
2823	Sanitarians	8,140	6,418	1,722	21,769	339%
2809	Chiropractors	42,515	21,247	21,268	66,443	313%
2812	Clinical Lab Science Pract	12,715	20,501	(7,786)	52,774	257%
2816	Alternative Health Care	17,965	8,821	9,144	22,630	257%
2824	Landscape Architects	12,869	6,941	5,928	17,793	256%
2840	Hearing Aid Dispensers	14,552	11,540	3,012	26,520	230%
2813	Plumbers	166,599	71,467	95,132	148,834	208%
2854	Funeral Services	25,592	25,599	(7)	51,672	202%
2829	Real Estate Appraisers	78,322	59,719	18,603	117,518	197%
2810	Optometrists	24,255	19,931	4,324	35,453	178%
2069	Physical Therapists	35,360	33,284	2,076	57,638	173%
2082	Nursing Home Admin.	16,380	14,279	2,101	21,487	150%
2822	Barbers	33,285	23,805	9,480	31,584	133%
2828	Real Estate	325,612	279,429	46,183	336,662	120%
2832	Pharmacy	193,504	167,214	26,290	197,711	118%
2808	Architects	48,208	43,836	4,372	50,681	116%
2811	Veterinarians	31,050	26,246	4,804	27,812	106%
2819	Electrical	31,455	91,223	(59,768)	95,929	105%
2852	Dentistry	148,528	111,943	36,585	113,694	102%
2835	Public Accountants	322,104	301,433	20,671	285,362	95%
2833	Passenger Tramways	26,497	56,780	(30,283)	52,661	93%
2841	Medical Examiners	486,788	512,047	(25,259)	459,804	90%
2831	Private Investigators	27,998	47,822	(19,824)	34,744	73%
2834	Nursing	636,193	501,774	134,419	355,908	71%
2826	Psychologists	37,485	33,076	4,409	18,487	56%
2446	Cosmetology	207,555	206,524	1,031	114,189	55%
2830	Outfitters	390,942	308,233	82,709	138,975	45%
2820	Athletics	2,795	2,783	12	749	27%
2160	Boiler/Crane Operators	90,560	106,073	(15,513)	(15,513)	-15%
2109	Real Estate Recovery	36,232	0	36,232	341,602	**
2155	Private Employment Agency	24	0	24	197	
	Subtotal-Boards	$3,836,960	$3,292,442	$544,518	$4,084,128	
6552	POL Administrative Srvc	1,193,830	1,299,756	(105,926)	142,004	11%
	Total POL Bureau	$5,030,790	$4,592,198	$438,592	$4,226,132	

*Source: SBAS 1995-6 Supplemental Financial Schedules.
**Real Estate Recovery account fund balance is normally high.

Program Issue

POL Boards: Fund Balances, Fees, Services

Table 1 provides information on the professional and occupational boards' fiscal 1996 revenues, expenditures, and ending fund balances.

The individual boards have the authority to set license fees, which are the source of the state special revenue that funds the boards' activities. As most of the boards receive the majority of their funding during the license renewal process, a fund balance sufficient to pay a full year of expenses is necessary. Therefore, a fiscal year-end fund balance amounting to a board's average annual expenditure level is considered appropriate.

As shown in Table 1, two-thirds, or 67.5 percent of the boards have fund balances in excess of a their annual expenditures. Further, 38 percent of the boards have fund balances which are more than double their annual costs of operation. As per 37-1-134, MCA, the POL boards are to establish fees commensurate with program costs. Due to excessively high fund balances among various POL boards in previous biennia, legislative audits in the past have recommended that the boards comply with the statute in setting their fees, encouraging fee reductions. However, it would appear that most boards have opted to expand services instead of lowering fees.

As a guiding rule, a high fund balance may indicate that fees in a particular program are too high and should be reduced. Conversely, a low or negative fund balance may indicate that fees need to be increased, the level of services decreased, or a combination of both. For example, the Boiler/Crane Operator board shows a serious deficiency in its fund balance, which indicates that fees or services need to be adjusted. On the other hand, the Professional Engineers board has a fund balance which is four times the level of its fiscal 1996 expenditures.

Review of these account balances may be useful in determining which boards are able to expand their programs without necessitating an increase in licensing fees. The legislature may wish to review these balances when considering present law increases or new proposals for the various boards.

6501 51

Department of Commerce — **Economic Development Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	24.50	0.00	1.88	26.38	0.00	2.50	27.00	26.38
Personal Services	768,540	151,862	63,565	983,967	154,569	84,587	1,007,696	1,991,663
Operating Expenses	1,032,967	(226,656)	358,252	1,164,563	(270,654)	249,615	1,011,928	2,176,491
Equipment	42,277	(31,277)	14,850	25,850	(31,277)	3,000	14,000	39,850
Grants	2,391,523	608,477	425,737	3,425,737	608,477	425,737	3,425,737	6,851,474
Total Costs	$4,235,307	$502,406	$862,404	$5,600,117	$461,115	$762,939	$5,459,361	$11,059,478
General Fund	904,395	(16,939)	862,404	1,749,860	(17,617)	762,939	1,649,717	3,399,577
State/Other Special	162,600	25,823	0	188,423	25,336	0	187,936	376,358
Federal Special	3,168,312	493,522	0	3,661,834	453,396	0	3,621,708	7,283,543
Total Funds	$4,235,307	$502,406	$862,404	$5,600,117	$461,115	$762,939	$5,459,361	$11,059,478

Program Description

The Economic Development Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana's economic and business climate. Working closely with economic and community development partners, other department divisions, state agencies, and federal and private programs, the division strives to enhance the economic base of Montana through business creation, expansion, and retention efforts. Technical and financial assistance is provided to local development groups, chambers, and similar organizations. Programs include regional development, trade, census and economic information center, business planning, business finance, and business location assistance.

Economic development responsibilities are mandated primarily in Title 30, Chapter 16; Title 17, Chapter 6; and Title 90, Chapter 1, MCA.

Funding

The Economic Development Division is funded as shown in Table 2. General fund finances portions of the economic development and trade programs. State special revenue funding consists of private funds, Montana Capital Company examination fees, and interest earnings from permanent coal tax (PCT) trust funds. The interest from loans to Microbusiness Development Corporations (MBDC's) made from the PCT trust provide funding for the administrative expenses of the microbusiness loan program. Federal funds provide the largest portion of the division's funding, which includescommunity development block grants, small business development federal assistance, and interest from loans of federal funds.

The trade program receives additional funding from Travel Montana's allocation of the lodging facility use tax, amounting to approximately $200,000 annually. Since lodging facility use tax revenues are statutorily appropriated, this amount does not require legislative appropriation in HB 2 and as such does not appear in the funding tables.

Table 2
Economic Development Division Funding
1999 Biennium

	Fiscal 1998	Fiscal 1999
General Fund	$1,749,860	$1,649,717
State Special Revenue		
Business Assistance-Private	$46,128	$41,709
Montana Capital Company Act	33,934	33,930
Microbusiness Admin. Acct	108,360	112,296
Federal		
Community Development Block Grant	$3,333,941	$3,336,921
EDA Revolving Loan Fund	32,596	28,184
Small Business Development Centers	253,451	236,786
Native American Outreach	41,846	19,817
Total	$5,600,116	$5,459,360

LFD Comment **- Table 3 provides recent historical funding patterns in the Economic Development Division. As shown, the percentage of general fund that has supported the division's programs has ranged between 17 percent and 21 percent. The Executive Budget request proposes to expand general fund support of the division to 30 percent. This increase is driven by the division's new proposal requests which total $1,625,343 for the 1999 biennium and which request funding from the general fund (for further discussion, see that section).**

Table 3
Economic Development Division
Historical Appropriations by Funding Source

	1993 Biennium	%	1995 Biennium	%	1997 Biennium	%	Proposed 1999 Biennium	%
General Fund	$1,635,300	21%	$1,361,966	18%	$1,766,352	17%	$3,399,577	30%
State Special Revenue	1,082,740	14%	778,924	10%	583,201	6%	376,357	3%
- *Lodging Facility Use Tax	0	0%	330,000	4%	400,000	4%	400,000	3%
Federal	5,121,347	65%	4,955,263	67%	7,516,736	73%	7,283,542	64%
	$7,839,387		$7,426,153		$10,266,289		$11,459,476	

*Lodging facility use tax funds are statutorily appropriated to the Department of Commerce and do not require legislative appropriation. As such, funds transferred from the Travel Montana program to the Economic Development Division were not included or shown in HB 2 appropriations in the 1997 biennium nor future bienniums.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6501 51 Department of Commerce Economic Development Division Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	151,862	154,569
02		Inflation/Deflation	335	(458)
03		Fixed Costs	17,058	14,053
		Total Statewide Adjustments	$169,255	$168,164
Significant Present Law Adjustments				
04	91511	Econ Dev Equipment	(31,277)	(31,277)
05	91512	Cdbg Grants To Local Communities	608,477	608,477
06	91513	Tax Credits Recovery	15,434	15,434
07	91514	Contracted Services	(264,911)	(303,911)
08	91515	Indirect Administrative Costs	5,119	3,919
		Total Significant PL Adjustments	$332,842	$292,642
Other Base Adjustments			$309	$309
		Grand Total Present Law Adjustments	$502,406	$461,115

4) Equipment Replacement - Replacement equipment for the 1999 biennium is a net reduction of $31,277 from the base and includes personal computers and software for a total of $11,000.

5) CDBG Loans to Businesses -The economic development portion of the Community Development Block Grant for loans to businesses which are repaid to the sponsoring community is estimated to be $3 million each year of the biennium. The net increase each year of the 1999 biennium is $608,477.

LFD Comment **- The CDBG program is a federally funded grant program.**

6) Tax Credits Recovery - The division has been pursuing recovery of tax credits awarded to a certified capital company and it is anticipated the company will pursue the matter in court. The request is for $20,000 each year of the biennium with the net increase being $15,434 over the base amount.

LFD Comment **- The executive is requesting $40,000 of state special revenue funds (capital company fees) in the 1999 biennium for potential legal fees and court costs associated with the recovery of $700,000 in tax credits awarded to a certified capital company. The division is responsible for administering the Montana Capital Company Act. The legislature may wish to make this a one-time only appropriation and restrict its use.**

7) Contracted Services - The division is required to develop and maintain the consolidated plan for the State of Montana in order to continue to receive funding for the CDBG and HOME programs. The request is for $406,000 in fiscal 1998 and $367,000 in fiscal 1999 to contract the work and hire temporary support assistance. The net reduction from the 1996 base amount is $264,911 in fiscal 1998 and $303,911 in fiscal 1999.

LFD Comment **- The executive is actually requesting funding for 5 individual contracts totaling $396,000 in fiscal 1998 and $357,000 in fiscal 1999 including: 1) the consolidated plan at $10,000 for the biennium; 2) the funding of 9 Small Business Development Centers (SBDC) in the state at $630,000 for the biennium (each SBDC is federally funded at $35,000 per year); 3) the SBDC micro loan contract in Helena at $66,000 for the biennium; 4) continuation of the NxLevel small business entrepreneurial training, with funding provided by US West at an anticipated level of $35,000 in the 1999 biennium; and, 6) internships for Carroll College students within various programs of the division at $12,000 for the biennium. There is also $20,000 in the base**

for temporary services.

8) Indirect Administrative Costs - The increase in indirect administrative costs, $5,119 in fiscal 1998 and $3,919 in fiscal 1999, is discussed in the Director/Management Services Division portion of the budget.

Other Base Adjustments - Numerous small dollar increases and decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

6501 51
Department of Commerce — **Economic Development Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Manufacturing Extension - Msu		210,000		210,000		220,000		220,000
02 1 Stop Business Licensing	1.13	176,455		176,455	1.50	63,496		63,496
03 Certified Communities	0.75	471,449		471,449	1.00	474,943		474,943
04 Census 2000		4,500		4,500		4,500		4,500
05 Pc For Certified Comm								
Total For New Proposals	1.88	$862,404		$862,404	2.50	$762,939		$762,939

Executive New Proposals

1) Manufacturing Extension - MSU - The University Technical Assistance Program (UTAP) at Montana State University (MSU) has been operating for a number of years with a goal to provide modern manufacturing assistance to small manufacturers in Montana. The program has been able to provide assistance, but the lack of adequate resources has prevented UTAP from reaching and providing this critical assistance to most of the manufacturers in Montana. UTAP received a grant from the National Institute of Standards and Technology (NIST) to create a Manufacturing Extension Program in Montana. This grant will provide $9 million for a six year period which began in the 1997 biennium. The hard dollar match is $1 for every $9 of federal grant funds. The current hard match requirement is funded by MSU. This request is 50 percent of the cash match required for the 1999 biennium. MSU will pay the other half. The funding will provide four field engineers with manufacturing experience in Missoula, Billings, Helena, and Bozeman and interns and graduate students to work with companies on their needs. The general fund request is for $210,000 in fiscal 1998 and $220,000 in fiscal 1999.

LFD Issue **- According to a March 1996 U.S. Government Accounting Office (GAO) report on manufacturing extension programs (MEP), the primary mission of this federal economic development program is to provide "hands-on" technical assistance to small and medium-sized manufacturers to improve their operations through the use of appropriate technologies. Based on the GAO's national survey of manufacturers who received MEP assistance, most companies (73 percent) reported positive impacts on their overall business performance, especially the relatively small or new companies (i.e. those with gross sales of less than $1 million and/or started since 1985).**

However, there are two things the legislature may wish to consider:

> **1) the circumstances of state involvement. As stated, MSU entered into an agreement without legislative involvement, agreeing to provide the necessary match. MSU is now asking that the state**

provide a portion of this match. Therefore, the legislature may wish to consider whether MSU should continue to provide the hard match as per their agreement; and

2) <u>the effectiveness of the programs and the identity of direct service recipients</u>. According to available literature, while businesses receiving the service report positive impacts, the GAO report did not provide evidence that instituting this type of program actually helps to create or expand the manufacturing base of any given economy. In addition, the tangible or intangible benefits in large part accrue to individual manufacturing firms. Therefore, gauging the value to the state and the relative benefits compared to the requested state contribution is difficult.

If it is the legislature's desire to appropriate a portion of the hard match required for this project, the legislature may wish to consider appropriating all or a portion from some other source. Because of the lack of evidence of a link between these programs and an increase in manufacturing jobs, and because of the direct benefits accruing to individual businesses, the legislature may wish to consider using some other source, such as contributions from businesses receiving the direct service.

The legislature may wish to ask the Department of Commerce to assess whether there is sufficient demand/need for this type of service, the extent of benefits which would accrue to the state, and whether potential benefits to the state would exceed the long-term costs of implementing such a program.

<u>Options</u>

1) Do not appropriate any hard match for this project. Require MSU to continue to provide the match, perhaps offsetting their costs by charging fees to those manufacturers who will receive direct assistance;

2) Appropriate all or a portion of the hard match with a funding source other than general fund, such as contributions from businesses receiving the direct service; and

3) Appropriate the entire amount of hard match from general fund as requested by the executive.

2) <u>One Stop Business Licensing</u> - The 1995 legislature passed SB 311 that required the department to present a plan for a one-stop business licensing system. A consultant was hired to make recommendations to the Board of Review mandated by SB 311. The recommendations are to use the state electronic mail system to communicate information among agencies and develop an Internet site enabling users to dial-in to a system capable of walking the user through all aspects of form access, submission, and license renewal. A pilot program for grocery store licenses to be operated out of the department is requested. The general fund request includes 1.13 FTE and $176,455 in fiscal 1998 to initiate the program and $63,496 for full operation in fiscal 1999. Maintenance of the system would be from a $5.00 fee from one-stop license users.

<u>LFD Issue</u> **- Per SB 311, the 1995 legislature appropriated $50,000 from the general fund to the Department of Commerce to develop a plan to establish a one-stop business registration and licensing system. SB 311 also directed that a Board of Review be established to provide policy guidance and recommendations regarding the proposed plan. The final plan, as proposed by consultants, has been recommended by the Board for implementation. The executive is requesting general fund of $240,000 and a total of 1.5 FTE to develop and manage the system in the 1999 biennium.**

Background

The One-Stop Business Licensing Plan proposal involves the development of an interactive computer system, to be available on the Internet, to centralize and facilitate licensing tasks. One of the stated goals of instituting such a system is to "make licensing easier, faster, simpler, and more cost-effective without jeopardizing public health and safety". The Internet-dependent system proposed by the plan essentially provides another medium through which licensing can occur and which may involve further streamlining of various licensing processes.

Theoretically, this would replace the current business licensing system now in use by the state. The Department of Commerce currently operates a "licensing information center" which provides information on all state licensing requirements. The center operates a toll-free information line, distributes licensing information and handbooks, and responds to inquiries. As such, the department provides centralized licensing information, with decentralized licensing responsibilities handled by a number of state agencies. For example, a previous report submitted to the 53rd Legislature by the department indicated that the state issues at least 174 different licenses, registrations, and permits, and, that these regulatory documents are issued by over twenty different divisions and bureaus, within ten separate state departments.

The LFD has identified a number of issues relevant to this new proposal which the legislature may want to consider.

Issues

1) *Costs* - Based on conversations with agency staff, the amount requested will fund an initial pilot program. As such, the legislature may wish to ask the agency what further costs are anticipated to get the program up and running and what future level of funding will be required to maintain it. The legislature may also wish to ask the department if it anticipates incremental increases in costs over time associated with this new proposal.

Also, it would appear that the department is now considering charging a user fee to those who apply for a license using the One-Stop system. However, no estimate is provided regarding how much the user fee revenue would offset any future burden on the general fund. The legislature may wish to ask the department how much revenue is reasonably anticipated from user fees and whether this function has the potential to be self-supporting once fully implemented. It should be noted that user fees would not be a source of revenue until the system is fully developed for broad use.

2) *Appropriateness of Funding Source* - Is it appropriate to fund the One-Stop Business Licensing System with general fund? The new system is designed to benefit business professionals specifically and the public at large only indirectly.

3) *Additional FTE* - The executive is requesting an additional 1.5 FTE to develop and manage the system within the context of a "pilot program". The current 3.25 FTE that handle various licensing tasks will not be eliminated/reduced. Further, the department does not specify whether there will be increased FTE requirements once the program transitions from the pilot phase to full implementation.

4) *Statutory and Operational Changes Required* - Statutory changes are a prerequisite for full program implementation. For example, electronic signatures would have to be allowed and notary requirements changed. These changes must be made or the One-Stop plan is not workable. Operationally, a high level of inter-agency cooperation/coordination will be required to effectively implement the program as intended.

5) *Access* - The plan suggests that a "traditional" mode of obtaining a business license will still need to be available to those who either opt for that method or who do not have access to the Internet. The legislature may wish to ask the department to clarify or define what "traditional" mode will be maintained and/or developed, and the costs of that mode.

6) *Efficiency Savings* - The consultant's proposal states that the new system will pay for itself within 3 years, with reduced overall costs attributed to the state's business licensing function. However, when one considers that the proposal includes the addition of 1.5 FTE with no reduction in the current FTE (3.25), a request for general funds for an initial pilot program, and the requirement that a "traditional" method of business licensing still be maintained, it would appear to be an overall increase in operational costs and not a savings.

7) *Process Improvements and Customer Service* - It would appear that the One-Stop plan is actually an electronic "first stop" at the Department of Commerce, which would become the central collection point of licensing applications and inquiries, with the actual licensing responsibilities still decentralized at the agency level. The regulatory responsibilities of agencies, involving oversight and review of license applications, are not intended to be reduced as they are integral to the licensing process. As such, it is not clear what increased automation applied to the current decentralized licensing system will actually accomplish. To what degree will moving to an Internet-dependent system streamline the state's business licensing processes and provide increased benefit to affected consumers? The legislature may wish to ask the department if the program is merely an enhancement of the current licensing system, an additional medium through which licensing can occur, or a true re-engineering of the business licensing function.

Based upon the above discussion, the legislature may want to consider several of the following options:

Options

1) request that DOC define precisely how the proposed system will actually improve and/or streamline the process of business licensing, how it will reduce overall costs associated with the licensing function, and what the increased benefits to Montanans will be as opposed to the current system;

2) consider enhancing the state's current system by adding "business licensing information" to Montana's Home Page on the Internet, which would involve substantially reduced development costs and no increases in FTE as compared to the executive's proposal;

3) maintain the current licensing system, with centralized licensing information provided by the Department of Commerce, and with decentralized state agency responsibility for licensing;

4) approve the One-Stop Business Licensing System proposal as per the executive's request to be funded from the general fund;

5) approve the One-Stop Business Licensing System and fund through an increase in relevant business licensing fees.

3) Certified Communities - The general fund request is to fund local economic development organizations on a one- to-one matching grant basis ($.50 state to $.50 local). The department is designated by Title 90, Chapter 1, part 116, MCA, as the administering agency to create and coordinate the Certified Communities Program. The request is for 0.75 FTE in fiscal 1998 and 1.00 FTE in fiscal 1999, operating, equipment, and grants to be awarded to local certified communities for a total of $471,449 in fiscal 1998 and $474,943 in fiscal 1999.

LFD Issue/Comment **- As per the statute, the Department of Commerce is directed to create and coordinate a Certified Communities Program. The program is essentially a grant program whereby "certified community lead organizations", as defined by the department, apply for grant funds to conduct economic development programs that are consistent with strategic plans for the community. Qualified entities can apply for state grant funds (1:1 state/local match), with the grants to be no less than $3,000 and no more than $75,000. The executive is requesting a total of 1.0 FTE in the 1999 biennium to administer the grant program.**

As per the enabling statute (90-1-116, MCA) the provision of state matching funds is contingent upon specific appropriations to the department for this purpose. Therefore, it is within the legislature's discretion whether or not to appropriate funds to the department for this purpose. It should also be noted that the legislation was enacted in April 1993. It would appear that the department has not requested funds for this purpose in the two preceding bienniums.

If the legislature desires to appropriate funding for the Certified Communities Grant Program, they may wish to consider the following:

1) due to the fact that the division coordinates a number of other business financing and grant programs, the legislature may wish to have the department justify the need for an FTE specifically assigned to this grant program.

2) the legislature may wish to request that the department monitor the impacts of the program and report to the next legislature regarding the quantitative and qualitative results generated.

4) Census 2000 - The proposal is to provide the operating expenses for planning activities related to Census 2000. During the biennium, the U.S. Census Bureau will engage state and local government officials in precensus activities related to address registers, mapping, and local review. In accordance with the Joint Statistical Agreement with the bureau, the Department of Commerce Census and Economic Information Center will reactivate its advisory council which consists of 12 members. Travel and operating expenses of the council are budgeted at $4,000 for the biennium. In addition, the center will participate with the Legislative Services Division in a redistricting program to make census geographical blocks compatible with local voting districts. The general fund request for this portion of the work is $5,000 for the biennium.

650: 52

Department of Commerce | **Montana Promotion Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Operating Expenses	617,999	32,001	0	650,000	32,001	0	650,000	1,300,000
Total Costs	$617,999	$32,001	$0	$650,000	$32,001	$0	$650,000	$1,300,000
State/Other Special	617,999	32,001	0	650,000	32,001	0	650,000	1,300,000
Total Funds	$617,999	$32,001	$0	$650,000	$32,001	$0	$650,000	$1,300,000

Program Description

The division strives to strengthen Montana's economy through increased visitor travel, visitor expenditures, and the filming of motion pictures and commercials in the state. The division works to project a positive image of the state through consumer advertising, publicity, international and domestic group travel marketing, printing and distribution of literature, and marketing to motion picture and television production companies. The division is funded primarily by the statutorily-appropriated lodging facility use tax and spends these monies to provide training and assistance to the Montana tourism industry, administer and distribute infrastructure grants, and oversee expenditures of six regional non-profit corporations and the nine specific cities where lodging facility use tax collections exceed $140,000.

The division work is primarily mandated in Title 15, Chapter 65, and Title 2, Chapter 15, MCA.

Funding

The primary program funding source is from state special revenue derived from 67.5 percent of lodging facility use tax revenue (after deductions for the amount of tax state employees paid and Department of Revenue collection costs). These funds are statutorily appropriated by 15-65-121, MCA, and are not appropriated in HB 2. The division is also partially funded from state special revenue received from the sale of advertising material, income from conferences, and income from other state agencies. The Montana Promotion Division distributes 22.5 percent of lodging facility use tax revenue to regional nonprofit tourism corporations and to certain cities. The remainder is spent by the division for tourism promotion and promotion of the state as a location for motion pictures and television commercials. A detailed discussion of revenues, allocations, and expenditures from the lodging facility use tax is provided under the LFD Program Issue.

Background Information

The assumptions for the proposed budget for the 1999 biennium are that accommodation tax receipts will continue to show a gradual increase, and that the programs implemented in the 1997 biennium will be augmented and improved. While the core focus is still on consumer marketing and fulfillment, there is an intent to increase the commitment to infrastructure development, both in terms of staffing and fiscal priorities.

For this discussion, it is assumed the lodging and facility use tax remains unchanged at 4 percent. It is also assumed non-resident travel will increase by 1 to 2 percent annually and inflation will continue at about 2 to 3 percent. The anticipated total collections for fiscal 1998 are $9,537,000 and fiscal 1999 are $9,775,425. Funds to other agencies in fiscal 1998 are $1,239,810 and fiscal 1999 are $1,270,805. The region share in fiscal 1998 is $2,074,298 and in fiscal 1999 is $2,126,155. The program funds for Travel Montana after $75,000 to the Historical Society and $200,000 to the trade program, and the addition of non-tax revenue is $6,372,893 in fiscal 1998 and $6,478,465 in fiscal 1999.

Travel Montana's national advertising budget has remained relatively flat since 1992. It is anticipated a new creative cycle will be implemented in fiscal 1998 that will increase expenditures to $2.5 million each year of the 1999 biennium.

Since the inception of the infrastructure grants programs in 1995, a total of $850,000 has been invested in projects throughout the state. The Community Tourism Assessment Grant Program provides some "project seed funding" to communities who have successfully completed the Community Tourism Assessment Process. Having completed this multiple-month planning and research process, and having identified one or more community tourism-related projects worthy of development, most communities find themselves in need of some project start-up funding. The grant program is designed to provide that critical initial project development funding The Tourism Infrastructure Investment Program provides grant funding to facilitate the development of new tourism-related products, and the enhancement of existing products to encourage visitors to stay in the State of Montana longer. The projected budget for the grants program is $445,000 in fiscal 1998 and $470,000 in fiscal 1999.

Travel Montana intends to continue its investment into electronic marketing through use of the Internet, private contractor telemarketing center, and interactive visitor kiosks developed in cooperation with the members of the Montana Tourism and Recreation Initiative. The goal is to provide potential visitors with accurate, timely information in the format they desire so they will choose Montana as a vacation destination.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6501 52 **Department of Commerce** **Montana Promotion Division**		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	0	0
02	Inflation/Deflation	0	0
03	Fixed Costs	0	0
	Total Statewide Adjustments	$0	$0
Significant Present Law Adjustments			
04	Increased Private Funds Support	32,001	32,001
	Total Significant PL Adjustments	$32,001	$32,001
Other Base Adjustments		$0	$0
	Grand Total Present Law Adjustments	$32,001	$32,001

4) Increased Private Funds Support - Increase in national/private sector cooperative advertising campaigns is anticipated because of more contributions from private sector tourist-oriented business. The net increase is $32,001 each year of the 1999 biennium.

LFD Comment **- The fiscal 1996 base expenditures for cooperative advertising campaigns were $617,999. The executive is requesting a total of $1,300,000 for this purpose in the 1999 biennium, which is actually a $200,000 annual increase over the 1997 biennium annual appropriation level of $450,000.**

State special revenue spending authority was increased in the program through transfers of spending

authority from other DOC programs. Per the department, the transferred authority allowed the department to expend unanticipated state special revenues received during the biennium. A total of $168,000 in excess spending authority was transferred to Travel Montana in fiscal 1996 including: $25,000 from the Board of Pharmacy; $25,000 from the Board of Medical Examiners; $18,000 from the Coal Board Administration; and $100,000 from the Economic Development Division. The net increase discussed above in the executive's present law narrative refers to the executive's request for an increase over the augmented base expenditure of $617,999.

Program Issue

Travel Montana Revenues & Expenditures

The lodging facility use tax, which is a 4 percent surcharge on hotel rooms, supports the state's travel/tourism program and the tourism industry in general. As the second largest industry in Montana, tourism plays a significant role in the state's economy. However, several aspects of the "bed tax" and the state tourism/travel program it supports continue to surface as issues including: 1) the appropriate uses of the tax revenue; 2) the actual impact of the state travel program on tourism levels; 3) the statutory nature of the travel program's funding; and 4) the justification for continually rising program expenditures. Other related policy issues include citizens perceptions regarding the negative impacts of tourism, delineation of tourism's attendant costs, and determining what share of those costs Montanans are actually paying.

Overview of State Tourism/Travel Programs

According to the Travel Industry Association of America's *Survey of State Travel Offices 1995-6,* nearly every state in the nation operates a state travel office. The majority of

Table 4
Survey of State Travel Offices
1995-6 Budget Projections

*Mountain and West North Central Regions of the U.S.

	*1995-6 Proj. State Travel Office Budget	State Population	Per Capita Budgeted Expenditures
Mountain Region			
Arizona	$7,400,000	4,218,000	$1.75
Nevada	7,008,952	1,530,000	$4.58
Montana	6,579,695	870,000	$7.56
New Mexico	5,286,200	1,685,000	$3.14
Idaho	4,123,358	1,163,000	$3.55
Utah	4,591,691	1,951,000	$2.35
Wyoming	3,811,017	480,000	$7.94
Colorado	n/a	3,747,000	n/a
Region Average	$5,542,988		
West North Central Region			
Missouri	$9,272,927	5,324,000	$1.74
Minnesota	9,261,750	4,610,000	$2.01
Kansas	3,910,822	2,565,000	$1.52
Iowa	3,643,000	2,842,000	$1.28
South Dakota	3,638,385	729,000	$4.99
Nebraska	2,105,946	1,637,000	$1.29
North Dakota	2,066,090	641,000	$3.22
Region Average	$4,842,703		
Other Western States			
Washington	$2,280,977	5,431,000	$0.42
Oregon	2,712,500	3,141,000	$0.86
California	7,335,000	31,589,000	$0.23

*Sources: 1) U.S. Travel Data Center, Travel Industry Association of America, "Survey of State Travel Offices 1995-6"; 2) U.S. Census Bureau Population Statistics (revised 1995 data)

Notes: 1) Amounts listed are budget projections, not actual expenditures. 2) National per capita rate is approximately $2.9.

state travel offices perform similar programmatic functions such as advertising, promotion, inquiry-fulfillment, etc. Of the 49 states which responded to the survey, 20 travel offices are funded by general fund.

The report indicates that the average projected travel office budget during the 1995-6 period, excluding several high-budget states, was $5.9 million. Table 4 shows the projected 1995-6 travel office budgets for states located in both the Mountain and West North Central Regions. According to the survey's statistics, the average projected annual budget in the Mountain region (AZ, CO, ID, MT, NV, NM, UT, WY), was $5.5 million. Travel Montana's actual fiscal 1996 expenditures were $6.8 million. When distributions to regional non-profit tourism corporations and local convention and visitors bureaus are included, the total rises to $8.8 million (see Table 6, Total Expenditures).

Per capita, Montana spends significantly more revenue on travel/tourism promotion than the majority of states, ranking fourth in the nation in per capita expenditures (at $7.56). (Hawaii ranks first at $20.60 per capita, Vermont ranks second at $9.68, and Wyoming ranks third at $7.94). Based on the survey data, the national average per capita rate is approximately $2.90.

Table 5
Lodging Facility Use Tax
Revenues & Appropriations (SBAS)
FY1988 - FY1996

	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
General Fund	0	0	$75,441	$78,324	$94,779	$640,865	$389,469	$124,481	$126,708
Dept. of Commerce* (90%)	3,076,038	4,745,232	5,119,380	5,824,659	8,463,901	7,031,744	6,946,668	7,883,655	8,100,583
Dept. of Revenue	185,053	100,354	108,266	123,182	(103,305)	94,389	89,182	91,433	88,605
Fish, Wildlife, & Parks (6.5%)	0	0	0	0	0	0	509,113	570,239	585,042
Higher Education (2.5%)	79,690	122,933	132,626	150,898	219,272	188,038	193,081	219,015	225,016
Historical Society (1.0%)	31,876	49,173	53,051	60,359	87,709	74,923	77,360	87,607	165,006
Total Revenues	$3,372,657	$5,017,692	$5,488,764	$6,237,422	$8,762,356	$8,029,960	$8,204,873	$8,976,429	$9,290,960

*Figures for Commerce include 22.5% RNTC appropriation which is disbursed by the agency.
(1) HB41 (July 1992 SS) transferred $220,000 to general fund by September 1993. Surtax on beds went to GF in FY 1993 and 1994.
(2) Per legislative intent in HB 2, in addition to the Historical Society's 1.0 percent bed tax allocation, it received an additional $75,000 in FY 1996 from the bed tax to support capitol building tours and the original governor's mansion restoration.

Lodging Facility Use Tax - Allocations

Allocations of the bed tax revenues are statutorily appropriated (15-65-121, MCA) and are shown in Table 5 and described below. The general fund receives the tax proceeds related to state employee in-state lodging, with the Department of Revenue receiving a small amount for collecting and disbursing the tax. The remaining revenue is allocated as follows:

1.0 percent - Montana Historical Society

2.5 percent - Commissioner of Higher Education

6.5 percent - Department of Fish, Wildlife, & Parks

67.5 percent - Department of Commerce (for Travel Montana)

22.5 percent - Department of Commerce (for distribution to regional non-profit tourism corporations)

The Montana Historical Society receives a 1 percent allocation to be used for the installation or maintenance of roadside historical signs and sites. It should be noted that the legislature specified in HB 2 that the DOC provide the Historical Society with an additional $75,000 of bed tax funds each year to fund capital building tours and tours and restorations of the original governor's mansion. The University of Montana receives 2.5 percent for the establishment and maintenance of a travel research program. These funds support the travel research conducted by the university's Institute for Tourism & Recreation Research (ITRR). The Department of Fish, Wildlife and Parks receives a 6.5 percent allocation, which is to be used for maintenance of state park facilities. The Department of Commerce receives a total of 90 percent of the remaining tax revenue, of which 67.5 percent is allocated to Travel Montana and 22.5 percent is disbursed by the department to six regional non-profit tourism corporations (typically expended under the auspices of various chambers of commerce) and to nine cities for local marketing (i.e. convention and visitors bureaus).

Revenue & Expenditure History

Table 5 contains historical data regarding annual lodging facility use tax revenues and allocations. As the table shows, bed tax revenues have risen dramatically since the inception of the tax in 1988. Revenues are essentially driven by four variables: the rate of tax, the number of visitors or travelers, room rates, and population growth. As such, higher revenues may not necessarily indicate increases in tourist visits, but may reflect higher room rates, increased resident travel, etc.

What continues to remain unclear, due to a lack of statistical information, is what percentage of lodging facility use tax revenue is attributable to Montana residents as compared to non-resident tourists. Research studies conducted by the ITRR have focused on non-resident travel and lodging patterns, with the notable exclusion of data collection on resident travel patterns. Without more inclusive statistical data, a comparison between resident to non-resident components of tax revenues cannot be made. (The allocations to the ITRR are shown in Table 5 under "Higher Education".)

Table 6
Department of Commerce
Travel Promotion & Development Division
SBAS Expenditures
FY1988 - FY1996

	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Personal Services	$353,366	$408,336	$382,593	$441,050	$568,066	$642,662	$678,271	$681,927	$725,659
Contracted Services	690,083	648,628	822,687	755,117	1,342,430	1,195,688	1,212,281	1,395,249	1,977,694
National Advertising	1,431,805	1,383,754	1,977,963	2,359,600	2,677,478	2,725,098	2,594,843	2,619,879	2,457,900
Travel	97,668	94,207	117,400	110,443	89,603	108,024	108,835	124,790	168,417
Other	470,798	479,445	504,743	671,697	691,133	950,216	879,951	925,805	1,444,052
Subtotal	$3,043,719	$3,014,371	$3,805,385	$4,337,908	$5,368,710	$5,621,688	$5,474,181	$5,747,650	$6,773,722
Distributions to Regional Non-profit Tourism Corps. - 6	$556,278	$617,672	$938,856	$990,964	$1,107,419	$1,221,444	$1,229,670	$1,451,625	$1,474,547
Dist. to Local Marketing-Cities 9	$226,947	$238,083	$417,231	$408,894	$461,877	$544,900	$468,413	$501,195	$578,979
Total Expenditures	$3,826,945	$3,870,127	$5,161,472	$5,737,766	$6,938,006	$7,388,032	$7,172,264	$7,700,470	$8,827,248
Funding Summary									
Federal	$226,372	$264,562							
State Special Revenue			178,897	298,977	313,222	332,456	368,892	604,430	618,000
Bed Tax	$3,600,572	$3,605,565	$4,982,575	$5,438,789	$6,624,784	$7,055,576	$6,803,371	$7,096,040	$8,209,248
Total Funding	$3,826,945	$3,870,127	$5,161,472	$5,737,766	$6,938,006	$7,388,032	$7,172,263	$7,700,470	$8,827,248

Expenditures in the Travel Montana program have also experienced significant increases, as shown in Table 6. Due to the statutory appropriation, the amount going to Travel Montana and to the other programs is automatically established based on the tax collections. The legislature does not determine on a year-to-year basis how much should be spent on travel/tourism promotion. Rather, this amount is strictly a function of the amount of bed tax collected. It should be noted that the actual rate of growth in tourism has leveled off, at a time when tourism program expenditures have been at their highest. This may suggest that state tourism has reached a certain saturation point. For example, the rate of tourism growth slowed to a 1 percent increase in 1995 (over 1994) and remained essentially flat or slightly down (i.e. no growth) in 1996. This trend is in contrast to the exceptional growth rate in tourism experienced in the late eighties and early nineties. It would appear that factors other than Travel Montana program expenditures influence the level of non-resident visitors to the state. In view of this, the legislature may want to evaluate the justification for increasing expenditures in the Travel Montana program.

Impacts of Tourism

As stated previously, tourism is the state's second largest industry. And as with any export industry, such as the sale of agricultural products, consumer goods, etc., the economy is likely to enjoy multiplier effects when outside dollars are brought into the state's economy. For example, tourist expenditures within the state have been estimated by ITRR to have reached a minimum of $1.0 billion annually beginning in 1993. These

expenditures, in turn, create profits to businesses, wages and jobs for employees, etc. From a broad perspective, the U.S. economy has grown more dependent on tourist dollars. According to the Wall Street Journal, *"Tourism's Role Rises, Creating Some Risks"* (Oct. 7, 1996), in 1995 nearly 10 percent of all jobs in the country were tourism related, up from approximately 7 percent in 1975. One in ten of those jobs was related to the casino business.

On the downside, the tourism industry is susceptible to fluctuations in exchange rates, economic downturns, etc. Reduced Canadian visits to Montana for the past few years are indicative of the effect of exchange rates on international tourism. With regard to economic development, although tourism has created jobs, the quality of tourist-related jobs is debatable as these jobs tend to be considered low-end, lower-paying jobs.

Based on survey research conducted by ITRR, it would appear that Montanans have a number of key concerns regarding the impact of tourism development on their quality of life. Surveys of Montanans' attitudes and perceptions about tourism development in the state suggest that residents are most concerned about: 1) traffic congestion and road stress; 2) increased demand on public services and infrastructure; 3) increased crime; 4) increased costs of living; and 5) the influx of "outsiders" moving into Montana. There are notable regional differences in attitudes toward tourism, with the regions of the state most affected by tourism the most likely to be concerned about various 'quality of life' issues. Without actual study of the direct and indirect costs of increased tourism, citizen concerns cannot be addressed. Certainly, the impacts of tourism should be considered by policymakers if tourism development continues to be promoted and subsidized by the state.

Summary

The current statutory appropriation of the lodging facility use tax allows unlimited growth in Travel Montana expenditures and minimal legislative oversight regarding those expenditures. As shown in Table 6, program expenditures have continued to increase at the same rate as revenues. With tax collections more than double the fiscal 1988 level, the legislature may want to reconsider what level of funding is optimal to accomplish program goals. There is also a lack of clear delineation of the costs of increased tourism and whether bed tax revenues should be used to address those costs. Furthermore, there is no precise data on what portion of the tax is being paid by Montanans versus tourists.

The legislature may wish to address whether:

1) tourism expenditures should continue to be a function of total bed tax collections;

2) specific programs should continue to receive statutory appropriations.

Options

The 1997 legislature may wish to consider several of the following options.

1) Deposit all bed tax revenues to the general fund, eliminate the statutory appropriation of the bed tax and directly appropriate funding for the Travel Montana program. All appropriations for tourism promotion would be established by the legislature each biennium. The Legislative Finance Committee is recommending this action in pending legislation.

2) Institute a statutory cap on the Travel Montana program expenditures, with revenues collected in excess of the cap to be deposited to the general fund to address costs of tourism, or reallocate to other current statutory uses of the tax. This action would require additional legislation.

Additional Options

3) Request that the Institute for Tourism and Recreation Research conduct research and provide annual statistics on resident/non-resident components of bed tax revenues as well as continue to conduct regular surveys regarding Montanans' attitudes and level of support for tourism development.

4) Allocate the estimated percentage of bed tax revenues generated by tourists to state tourism-related programs, and allocate the revenues generated by Montana residents to mitigating the impacts of tourism or to address other infrastructure needs.

5) Consider allocating or granting a portion of bed tax revenues to the Department of Transportation to be used as a source of state matching funds for federal Community Transportation Enhancement projects. Using bed tax revenues as a source of match funds could enable the state to maximize the significant federal authority related to the CTEP program (over $5.0 million in annual federal authority) and would provide for various infrastructure projects throughout the state. MDT's current policy is to suballocate the federal funds to local governments, requiring the local governments to provide the match. Currently, significant unexpended federal authority exists under the CTEP program. (See related discussion of CTEP program under LFD Agency Issues in the Department of Transportation, Section A).

6501 60

Department of Commerce — **Community Development Bureau**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	12.50	0.00	0.00	12.50	0.00	0.00	12.50	12.50
Personal Services	430,658	35,442	0	466,100	29,726	0	460,384	926,484
Operating Expenses	488,078	171,056	0	659,134	161,446	0	649,524	1,308,658
Equipment	5,644	2,856	0	8,500	2,856	0	8,500	17,000
Grants	5,740,625	1,543,068	0	7,283,693	1,543,068	0	7,283,693	14,567,386
Debt Service	662	(662)	0	0	(662)	0	0	0
Total Costs	$6,665,667	$1,751,760	$0	$8,417,427	$1,736,434	$0	$8,402,101	$16,819,528
General Fund	300,030	31,519	0	331,549	30,036	0	330,066	661,614
State/Other Special	1,466,328	(251,255)	0	1,215,074	(261,695)	0	1,204,633	2,419,707
Federal Special	4,899,309	1,971,496	0	6,870,805	1,968,093	0	6,867,402	13,738,207
Total Funds	$6,665,667	$1,751,760	$0	$8,417,427	$1,736,434	$0	$8,402,101	$16,819,528

Program Description

The Community Development Bureau is responsible for providing technical assistance in regarding public facilities planning and financing; land use and comprehensive planning; community development and financing; coal and hard rock mining impact mitigation; and general local government research. Stakeholder groups served include planning and zoning commissions, parks/ recreational boards, community development groups, community action agencies, private developers, and the public. The bureau includes the boards and programs described below.

Montana Coal Board - The Coal Board seeks to assist the local community experiencing impact as the result of coal development with funding to meet the escalating costs of adequate governmental services and facilities. The intent is not to replace local effort but instead to provide for the additional costs generated as a direct consequence of the coal development.

Community Development Block Grant - The CDBG Program is a federally-funded competitive grant program established in 1974 which is designed to help communities of less than 50,000 population with their greatest community development needs. All CDBG projects must principally benefit low- and moderate-income persons. The housing and public facilities categories are administered by the DOC Local Government Assistance Division, Community Development Bureau. (The economic development category is administered by the DOC Economic Development Division.)

Community Technical Assistance - The Community Technical Assistance Program (CTAP) was established by the legislature in 1967. CTAP is directed by state law to improve local planning and community development in Montana by providing technical assistance, practical information, and training on community and rural planning options, land use laws, and planning and land development techniques.

Hard Rock Mining Impact Board - This governor-appointed quasi-judicial board provides community impact technical assistance and mediates disputes among developers and local governments concerning their developed impact plans for hard rock mining developments. The board establishes policies, makes determinations, and adopts rules as necessary to ensure the consistent interpretation and implementation of the Impact and Tax Base Sharing Acts.

Treasure State Endowment - The Treasure State Endowment Program (TSEP) is a state-funded grant and loan program designed to assist local governments in obtaining affordable financing for constructing or repairing drinking water systems,

wastewater treatment facilities, sanitary or storm sewer systems, solid waste disposal and separation systems, and bridges. TSEP funding is recommended to assist local governments in order to make infrastructure projects affordable, where local governments are unable to borrow or obtain the necessary funds from local or other sources.

The Community Development Bureau work is primarily mandated in Title 90, Chapter 1 and Chapter 6, MCA; and federal authorizations 24 CFR 570, subpart 1; and 42 USC 5301.

Funding

Table 7 shows the funding by program as requested by the executive for the program's five functions. The Hard Rock Mining Board is funded from a 1.5 percent allocation of the metalliferous mines license tax. The Community Development Block Grant program is funded primarily with federal block grant funds and a minor amount of general fund. The Treasure State Endowment program is funded from interest earnings from the permanent coal tax trust. The Community Technical Assistance program is funded with general fund and also a portion of coal tax severance collections as allocated for county land planning. The Coal Board is supported by a portion of coal severance tax collections.

Per SB 83 (1995 session), the Coal Board and Community Technical Assistance Program must compete with three other programs (Montana Growth Through Agriculture, State Library Commission, and Conservation Districts) for a share of the 8.36 percent of coal severance tax collections. For a discussion on "Coal Tax" see the Overview volume of the LFD Budget Analysis.

Table 7
Community Development Bureau
Executive Funding

	1998	1999
General Fund	$331,549	$330,066
State Special Revenue		
Hard Rock Mining	$209,705	$209,396
Treasure State Endowment	252,004	250,030
County Land Planning	201,761	200,456
Local Impact	551,603	544,750
Federal		
Community Development Block Grant	$6,870,805	$6,867,402
Total	$8,417,427	$8,402,100

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6501 60 Department of Commerce Community Development Bureau		Present Law Description	Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	33,392	27,676
02		Inflation/Deflation	321	(60)
03		Fixed Costs	3,724	702
		Total Statewide Adjustments	$37,437	$28,318
Significant Present Law Adjustments				
04	79197	Comm Dev Replacement Software	0	0
05	79199	Comm Dev Replacement Pcs	0	0
06	91601	Coal Board Adjustments	8,456	2,456
07	91602	Hard Rock Mining Adjustments	114,626	114,443
08	91603	Void	0	0
09	91604	Treasure State Endowment Adjustment	3,354	3,354
10	91605	Indirect Administrative Costs	30,792	30,768
11	91607	Cdbg Operating Costs	11,833	11,833
12	91608	Replacement Equipment	2,856	2,856
13	91609	Community Development Grants	1,543,068	1,543,068
14	91610	Void	0	0
		Total Significant PL Adjustments	$1,714,985	$1,708,778
Other Base Adjustments			($662)	($662)
		Grand Total Present Law Adjustments	$1,751,760	$1,736,434

6) Coal Board Adjustments - Because of the reduced activity within the Coal Board, all of the staff positions have been reduced in force over the past biennium. The division administrator and the division counsel have taken over most duties. Because of the short, but significant program activity that surrounds a board meeting, it has been the board's choice to retain a contractor to attend to the details of the board meeting and any follow up contractual or project monitoring activity. The board will also need the professional services of an economic/demographer to help build and define the local impact funds distribution criteria. The net increase is $8,456 in fiscal 1998 and $2,456 in fiscal 1999.

7) Hard Rock Mining Adjustments - Anticipated 1999 biennium board involvement increases as projects move from one phase to another due to number and complexity of issues and the need to implement untried statutory requirements. The increased involvement results in an additional $2,050 each year of the biennium in per diem; consulting and professional services increase $1,790 in fiscal 1998 and $2,190 in fiscal 1999 due to presentation of resource development and community impacts to assist persons responsible for impact plan; revisions to incorporate post-hearing findings into impact plans; telephone charges, mileage, motor pool, lodging, meals, and meeting room charges increase $5,896 in fiscal 1998 and $5,936 in fiscal 1999; and temporary help at peak workload periods increases $731 each year of the biennium. An increase of $217 each year of the biennium is requested for classes to improve computer skills. An increase in printing, publication, and mailings costs is requested for an update to a guide and related materials needed by affected parties and the public in meeting responsibilities under the Hard Rock Mining Impact Act; documents for affected parties concerning contested case hearing; and replacement pages for amended plans in the amount of $3,671 in fiscal 1998 and $2,871 in fiscal 1999. As provided in 90-6-304(2), MCA, the board is required to maintain a reserve not to exceed $100,000. Expenditures may be made from this reserve only under conditions and for the purposes set forth in statute. There were no conditions or purposes meeting statutory criteria in fiscal 1996 and thus no expenditures were made from the reserve account. The requested adjustments are $114,626 in fiscal 1998 and $114,443 in fiscal 1999.

9) Treasure State Endowment Adjustments - The request of $3,354 each year of the 1999 biennium is for engineering review of applications and financial consultants to resolve problem areas in financial mechanisms.

10) Indirect Administrative Costs - The increase in indirect administrative costs, $30,792 in fiscal 1998 and $30,768 in fiscal 1999, is discussed in the Director/Management Services Division portion of the budget.

11) <u>CDBG Operating Costs</u> - An increase in professional contracts of $1,296 each year of the biennium is for higher costs to hire an engineer to review public facility applications; a financial consultant to assist in evaluation of financial need for grant assistance; and a consultant to assist in conducting research for the consolidated plan required by HUD. HUD has instituted a number of new requirements, such as an integrated data information system, new lead-based paint regulations, and program income requirements that put an increased workload on the program staff. Increases each year of the biennium are requested for temporary services, $243; printing, $3,628; office supplies, $484; postage and mailing, $1406; and advertising, $187. During the last biennium, the program operated with significant staff vacancies. It is anticipated the program will be operating with full staff during the biennium. The program requires extensive monitoring of approximately 60 housing and public facility projects currently active. It is often more cost effective to air charter staff for conducting application or training workshops for local governments in eastern Montana. The request is for $1,500 each year of the 1999 biennium. Other in-state travel increases are $987 each year and out of state travel to attend HUD required training sessions increase $2,300 each year of the 1999 biennium.

12) <u>Replacement Equipment</u> - The request of $8,500 each year of the 1999 biennium is for replacement software and personal computers. The net increase is $2,856 each year.

13) <u>Community Development Grants</u> - A biennial grant of $500,000 from unencumbered funds in the coal board local impact account is requested. Federal money passed through to localities for CDBG financed public facility and housing projects is projected as a net increase of $1,731,153. Congress amended the Housing and Community Development Act to allow states to use one percent of the annual allocation to fund technical assistance grants to local governments. The net increase is $43,809 each year of the 1999 biennium. The net increase of administration of CDBG construction contracts by local governments is $192,859.

***<u>LFD Comment</u>* - Prior to the passage of SB 83, the coal board received 6.65 percent of coal tax collections. The coal board now is appropriated funds, along with four other functions, from 8.36 percent of total collections. For a further discussion, see the "Overview" volume of the LFD Budget Analysis.**

<u>Other Base Adjustments</u> - Numerous small dollar decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

6501 62

Department of Commerce — **Local Government Audit and Systems Bureau**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	6.00	0.00	0.00	6.00	0.00	0.00	6.00	6.00
Personal Services	231,637	5,133	0	236,770	5,993	0	237,630	474,400
Operating Expenses	94,685	29,682	0	124,367	23,980	0	118,665	243,032
Equipment	2,827	(2,827)	0	0	(2,827)	0	0	0
Total Costs	$329,149	$31,988	$0	$361,137	$27,146	$0	$356,295	$717,432
General Fund	329,149	31,988	0	361,137	27,146	0	356,295	717,432
Total Funds	$329,149	$31,988	$0	$361,137	$27,146	$0	$356,295	$717,432

Program Description

The Local Government Audit Review & Systems Bureau consists primarily of two programs:

Local Government Accounting Systems Program - The Accounting Systems Program provides technical assistance and training to local government accounting and financial personnel in the areas of local government finance, accounting, budgeting, and financial reporting through on-site visits, telephone assistance, and local government training seminars held at various locations throughout the state on a periodic basis. The program also serves as a liaison between local government and various departments of state government and provides the legislature with local government financial information when such information is pertinent to proposed legislation. (The program also is developing a "County Collections Manual" that will coordinate for counties and state agencies all current state statutes, administrative rules, and program procedure memorandums.) The systems program can call for a special audit of a Montana unit of local government under 2-7-503, MCA.

Local Government Audit Review Program - Established by the 1993 legislature to comply with the federal Single Audit Act, this program is responsible for defining, reviewing, and enforcing auditing requirements for Montana local governments. Program staff review all jurisdictions' annual financial reports; establish and notify those required under state and federal law of their audit status; qualify and maintain a roster of private CPA firms and individuals eligible to conduct local audits; review the completed audits for legal compliance; enforce government or auditor correction as necessary; and certify compliance of local governments with the state Single Audit Act.

Systems program work is mandated primarily in Article VIII, Section 12 of the Montana Constitution; Title 2, Chapters 6 and 7; Title 7, Chapters 1, 2, 3, 5, and 6; Title 19, Chapter 18; Title 20, Chapter 1, and Title 85, Chapter 7, MCA. Audit review program work is mandated primarily in Title 2, Chapter 7, part 5, MCA.

Funding

General fund supports the systems portion of the program. Proprietary revenue is derived from service fees assessed to local governments for the systems and audit review functions of the program. Because the legislature does not appropriate proprietary funds, the narrative that follows only addresses the systems portion. The local governments systems and audit review functions are discussed in the "Proprietary Funds and State Fund" section of the Executive Budget/LFD Budget Analysis.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6501 62 **Department of Commerce** **Local Government Audit and Systems Bureau** Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	 Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	4,987	5,847
02		Inflation/Deflation	(708)	(711)
03		Fixed Costs	1,104	1,340
		Total Statewide Adjustments	$5,383	$6,476
Significant Present Law Adjustments				
04	91620	1On-Site System Work	10,507	10,507
05	91620	2Information For Local Governments	4,669	194
06	91620	3Service Offices	1,519	1,519
07	91620	4Service Operations	3,840	3,840
08	91620	5Indirect Costs & Recharges	7,914	7,789
		Total Significant PL Adjustments	$28,449	$23,849
Other Base Adjustments			($1,844)	($3,179)
		Grand Total Present Law Adjustments	$31,988	$27,146

4) On-Site System Work - The systems program is mandated to produce a county collections manual. In fiscal 1996 approximately 60 per cent of staff time was spent on the systems program activities. Approximately 40 per cent of staff time was spent in closing the audit program. As a result, travel, overtime, and long distance telephone charges increase $10,507 each year of the 1999 biennium above the fiscal 1996 base.

5) Information for Local Governments - Following the 55th legislative session, the services of a contractor will be needed to prepare data for an update seminar provided to local government personnel. In conjunction with the seminar, the county collections manual will be printed and mailed. Increase from the fiscal 1996 base is $4,669 in fiscal 1998, the year of the printing and mailing, and $194 in fiscal 1999.

6) Service Offices - The costs associated with the system program offices located in Glendive and Billings include printing, supplies, books and reference materials, and rent. The increase is $1,519 each year of the 1999 biennium.

7) Service Operations - The staff will attend governmental finance officers association and other national organizational continuing education and training seminars. The CPAs on staff are required to obtain at least 80 hours of training every two years. The increase over the 1996 base is $3,840 each year of the 1999 biennium.

8) Indirect Costs and Recharges - The internal support costs for this program increased $4,770 in fiscal 1998 and $4,619 in fiscal 1999. The increase in the administrative cost is discussed in the Director/Management Services Division portion of the budget. The allocation of division administrator recharges increase by $3,144 in fiscal 1998 and $3,170 in fiscal 1999.

Other Base Adjustments - Numerous small dollar decreases from the base year in operating expenses comprise the net amounts for other base adjustments.

6501 65
Department of Commerce — **Building Codes Bureau**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	45.00	0.00	1.13	46.13	0.00	1.50	46.50	46.13
Personal Services	1,412,253	105,386	27,609	1,545,248	107,830	36,587	1,556,670	3,101,918
Operating Expenses	494,201	71,860	6,508	572,569	73,049	6,470	573,720	1,146,289
Equipment	1,525	246,475	0	248,000	87,975	0	89,500	337,500
Total Costs	$1,907,979	$423,721	$34,117	$2,365,817	$268,854	$43,057	$2,219,890	$4,585,707
State/Other Special	1,907,979	423,721	34,117	2,365,817	268,854	43,057	2,219,890	4,585,707
Total Funds	$1,907,979	$423,721	$34,117	$2,365,817	$268,854	$43,057	$2,219,890	$4,585,707

Program Description

The Building Codes Bureau establishes and enforces minimum building, plumbing, mechanical, electrical, energy, elevator, and boiler codes. This enforcement safeguards the public, employees, and property from the hazards inherent in the construction of buildings, including their structural, nonstructural, electrical, plumbing, mechanical, and boiler components, and recreational vehicles and factory-built buildings manufactured or offered for sale in Montana. When possible, the bureau approves and certifies local government code enforcement programs to utilize codes adopted by the program. The bureau also assists the Board of Plumbers and the State Electrical Board with license law enforcement by checking for proper licensing when inspecting projects for code compliance.

Building codes responsibilities are mandated primarily in Title 50, Chapter 60, and Title 50, Chapter 74, MCA.

Funding

The Building Codes Bureau is funded entirely from inspection fees deposited in the state special revenue fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Building Codes Vehicle Replacement - The bureau has 33 field inspectors who drive state-owned vehicles in order to complete inspections. The request is for replacement of 11 pickups and 9 mid-size sedans in fiscal 1998 for a net increase over the 1996 base of

6501 65
Department of Commerce
Building Codes Bureau

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	105,386	107,830
02		Inflation/Deflation	2,054	4,107
03		Fixed Costs	11,602	11,171
		Total Statewide Adjustments	$119,042	$123,108
Significant Present Law Adjustments				
04	91651	Vehicle Replacement	247,009	88,509
05	91652	Adjustment For Inspector Turnover	7,713	7,803
06	91653	Building Codes Operations	14,722	14,722
07	91654	Administrative Cost Increase	35,553	35,030
		Total Significant PL Adjustments	$304,997	$146,064
Other Base Adjustments			($318)	($318)
		Grand Total Present Law Adjustments	$423,721	$268,854

$247,009 and four pickups and three mid-size sedans in fiscal 1999 for a net increase over the 1996 base of $88,509.

LFD Comment **- The vehicle replacement request involves the purchase of 27 new vehicles in the 1999 biennium, at a total cost of $335,518. The department has indicated that it has been following a 3-year replacement schedule on vehicles, with the last purchase made in fiscal 1995. The department indicates that due to the high mileage that inspector vehicles incur, a 3-year replacement schedules allows for approximately 100,000 miles on each vehicle before replacement.**

5) Adjustment for Inspector Turnover - The adjustment is because there were a number of inspector positions vacant in fiscal 1996. The increase of $7,713 in fiscal 1998 and $7,803 is for travel and associated costs.

6) Building Codes Operations - The net increase in operations is $14,722 each year of the 1999 biennium due to a contract with a plan reviewer and temporary support staff to help during peak construction season and increased costs associated with contested building codes cases.

7) Administrative Cost Increase - Internal support costs for this program increased $35,553 in fiscal 1998 and $35,030 in fiscal 1999. The increase in the administrative cost is discussed in the Director/Management Services Division portion of the budget.

LFD Comment **- The Director/Management Services Division is discussed in the "Proprietary Rate Setting and State Fund" section. Base expenditures for indirect administrative charges totaled $102,094.**

Other Base Adjustments - Numerous small dollar decreases from the base year in operating expenses comprise the net amount for other base adjustments.

6501 65
Department of Commerce — **Building Codes Bureau**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Workload Increase	1.13		34,117	34,117	1.50		43,057	43,057
Total For New Proposals	1.13		$34,117	$34,117	1.50		$43,057	$43,057

Executive New Proposals

1) Workload Increase - The total proposal related to boilers, buildings, and elevators is for 1.13 FTE and operating in the amount of $34,117 in fiscal 1998 and 1.50 FTE and operating in the amount of $43,057 in fiscal 1999. The 1995 legislature transferred the boiler inspector program from the Department of Labor and Industry (DOLI) to the Department of Commerce (DOC). The clerical position that handled the clerical and administrative tasks was not transferred. The boiler request is for 0.38 FTE in fiscal 1998 and 0.50 FTE in fiscal 1999. The number of boiler inspections have increased from 900 per year at DOLI to 2100 at DOC. The workload associated with the building standards section also has increased. The one clerical position that previously served two plan reviewers and two building inspectors now serves three plan reviewers and six building inspectors. An additional 0.38 FTE is requested for fiscal 1998 and 0.50 FTE for fiscal 1999 clerical support for the building standards section. The elevator inspector is unable to complete all passenger elevator inspections annually as required by administrative rule. An additional 0.37 FTE in fiscal 1998 and 0.50 FTE in fiscal 1999 is requested to handle

the increased workload.

LFD Issue **- With regard to the boiler program, the Executive Budget request above includes a 0.38 FTE clerical position to handle tasks associated with this program. The department justifies the need for this FTE on the basis that the federally-funded clerical position was not transferred to DOC from DOLI in the last biennium.**

Per the passage of HB 68, the legislature approved the transfer of the boiler inspector program from DOLI to the Department of Commerce and appropriated state special revenue spending authority to the Building Codes Bureau of $151,685 in fiscal 1996 and $152,549 in fiscal 1997 to fund 3.0 FTE and associated operating expenses of the program. The legislature also established boiler licensing and inspection fees. The department borrowed $70,000 of general fund for start-up costs to operate the boiler operator licensing program in the POL Bureau as no cash balance existed.

The boiler 'inspection' portion of the program operates under the Building Codes Bureau. DOC has indicated that the increase in boiler inspections, which is more than double the previous level performed by DOLI, is due to a backlog of needed inspections which DOC is attempting to address in order to comply with the governing statute. Section 50-74-209, MCA states that all boilers must be inspected annually. The department has indicated that it will be introducing legislation that will institute various classes of boilers, with certain classes to be inspected at 3-year intervals.

6501 73 Department of Commerce Program Proposed Budget				Montana Science & Technology Alliance				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	5.00	0.00	0.00	5.00	0.00	0.00	5.00	5.00
Personal Services	180,464	44,427	0	224,891	44,712	0	225,176	450,067
Operating Expenses	114,006	5,019	0	119,025	4,329	0	118,335	237,360
Debt Service	2,057	9,835	0	11,892	13,591	0	15,648	27,540
Total Costs	$296,527	$59,281	$0	$355,808	$62,632	$0	$359,159	$714,967
State/Other Special	296,527	59,281	0	355,808	62,632	0	359,159	714,967
Total Funds	$296,527	$59,281	$0	$355,808	$62,632	$0	$359,159	$714,967

Program Description

The Montana Science and Technology Alliance (MSTA) invests state funds in innovative science and technology development through two programs: 1) the Seed Capital Financing Program, which has authority to invest up to $12.5 million of the permanent coal tax trust in new and expanding technology-based businesses and venture capital partnerships in Montana; and 2) the Research and Development Financing Program, which has authority to invest up to $11.1 million of the permanent coal tax trust in Montana university research and development projects that have outstanding technological and commercial potential.

MSTA responsibilities are mandated primarily in Title 90, Chapter 3, MCA.

Funding

The MSTA program's administrative costs are funded with state special revenue derived from loan paybacks on investments of permanent coal trust funds. HB 394, passed by the 1993 legislature, made significant changes to MSTA funding by: 1) directing that earnings on permanent coal trust fund loans be deposited to a MSTA state special revenue account to pay administrative costs (instead of being deposited to the general fund), with the balance, after payment of administrative costs, deposited in the permanent coal trust fund within 30 days; 2) stating that the university system must repay at least $250,000 per year beginning in fiscal 1993 for research and development loans they have received from MSTA; and 3) authorizing the Board of Investments to reimburse the department for MSTA administrative costs not covered by loan paybacks or earnings with interest income from the permanent coal trust fund.

MSTA has been authorized by the legislature to invest Permanent Coal Tax (PCT) trust funds of $12.5 million in seed capital loans and $11.1 million in research and development loans. All research and development loaning/granting authority has been committed, and $10.6 million has been committed under the seed capital program, leaving $1.9 million in uncommitted MSTA seed capital authority. See further discussion of the MSTA loan portfolio under Program Issue.

Executive Present Law

6501 73			
Department of Commerce		Present Law Adjustments/Issues	
Montana Science & Technology Alliance			
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	40,577	40,862
02	Inflation/Deflation	(192)	(231)
03	Fixed Costs	595	(89)
	Total Statewide Adjustments	$40,980	$40,542
Significant Present Law Adjustments			
04 91731	Science & Tech Alliance Costs	18,558	22,314
05 91732	Office Relocation	(7,754)	(7,546)
06 91733	Indirect Administrative Costs	7,497	7,322
	Total Significant PL Adjustments	$18,301	$22,090
Other Base Adjustments		$0	$0
	Grand Total Present Law Adjustments	$59,281	$62,632

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Science & Tech Alliance Costs - The net increase in operating costs of $18,558 in fiscal 1998 and $22,314 in fiscal 1999 above the 1996 base includes per diem for board members, contractors to review business plans, counsel retained to advise on issues relating to federal and state securities law, and fees charged by banks for compiling loan agreements and processing documents. There is a decrease in non-employee travel expenses from the base that was previously needed in conjunction with a grant.

5) Office Relocation - The net reduction in the cost of office space, $7,754 in fiscal 1998 and $7,546 in fiscal 1999, is attributed to moving from privately-owned space to state-owned space.

6) Indirect Administrative Costs - The increase in indirect administrative costs, $7,497 in fiscal 1998 and $7,322 in fiscal 1999, is discussed in the Director/Management Services Division portion of the executive budget.

LFD Comment - **The Director/Management Services indirect costs are discussed in the "Proprietary Funds and State Fund" section of the Executive Budget/LFD Budget Analysis.**

Other Base Adjustments - Internal support costs for this program are shown as a net increase of $7,497 in fiscal 1998 and $7,322 in fiscal 1999. The increase in the administrative cost is discussed in the Director/Management Services Division portion of the budget.

LFD Comment - **Per the present law table, other base adjustments amount to $0.**

Program Issue

The executive is requesting approximately $715,000 to administer the MSTA loan program in the 1999 biennium. The program has authorized funding for 5.0 FTE. However, the program operated with a level of 4.0 FTE during fiscal 1996.

The MSTA program has been operational for a decade, with the majority of the $23.6 million of Permanent Coal Tax trust funds authorized for loans nearly expended. Per the statute, the spending authority for MSTA does not extend beyond June 30, 1997. However, as seed capital loans are repaid, the MSTA may reinvest the principal in new loans. An overview of the MSTA program and the current status of its investment portfolio are discussed below.

Background

The Montana Science and Technology Financing Act (90-3-101, MCA) was enacted by the 1985 legislature to strengthen and diversify Montana's economy by establishing a public-private sector partnership to encourage scientific and technological development within the state in order to keep pace with a changing economic structure and to create new jobs and expand business opportunities. The MSTA provides a funding source for seed capital and research and development project loans through its seed capital program and research and development loan program. The seed capital program is intended to provide loans to early and expansion stage companies with potential for growth, advancement of the state's economy, and return on investment (ROI), which is defined as all loan paybacks in excess of principal. The research and development program is intended to encourage technology development in the state through the funding of research projects with technological and commercial potential.

MSTA, under the direction of the Montana Board of Science and Technology Development (Board), was originally given the authority to invest $23.6 million of permanent coal tax trust (PCT) funds in seed capital and research and development projects. Prior to 1990, MSTA used alternative energy funds and general fund (non-PCT funds) to finance projects. However, this practice ceased when the 1989 legislature gave MSTA its initial authorization to invest PCT funds.

In the 1997 biennium, Senate Bill 38 reduced the amount of permanent coal tax trust funds that the Board of Investments allowed the MSTA Board to invest in seed capital loans from $15.5 million to $12.5 million. At the same time, the bill increased the amount of permanent coal tax trust funds available for research and development projects from $8.1 million to $11.1 million. In the past, the R&D funds were used primarily as loans to the university system. Under SB 38, these funds were 'granted' to the university system for research and development projects. In the 1997 biennium, the grant from MSTA to the university system was $3 million.

SB 38 also authorized the job investment act (under which the Department of Commerce may loan a portion of the permanent coal tax trust to businesses) to create and retain jobs in Montana. Loans made to eligible businesses under this program cannot exceed $500,000.

Status of MSTA Investments

All of the $11.1 million in research and development loan/grant authority has been committed. As previously mentioned, the majority of these funds have gone to the university system.

Of the $12.5 million in total seed capital authority, $10.6 million has been committed. Information provided by MSTA, as shown in Table 8, indicates that the current seed capital investment portfolio totals $10.1 million. As shown in the table, payback received to date on loans originating from 1989 through 1995 amounts to $368,000. The department has indicated that a total of two loans were made in the 1997 biennium. Of the 15 seed capital investments listed in Table 8, three loans are identified as job investment loans. MSTA also provided a total of $2.0 million in seed capital to two private venture capital companies, at $1 million each. These loans, with loan repayments to MSTA beginning in 2005, were provided to establish a source of private venture capital in the state. One of these capital companies, Glacier Venture, has applied for federal SBIC status (Small Business Investment Corporation), which, if attained, will provide matching federal loan funds to Glacier of 3:1 (federal/private).

Table 8
MSTA Seed Capital Investment Portfolio
Status of Current Seed Loans

Company	Year Funded	Amount Funded	Payback Received	# of Jobs Created	Cost/Job Created**	Current Status
ChromatoChem, Inc.	1989	$350,000	$0	*	n/a	MSTA in negotiations regarding debenture due in 12/96.
Nurture, Inc.	1989	1,225,000	$136,562	*	n/a	Being purchased by another company. MSTA negotiating settlement.
Gateway Software	1990	334,150	97,490	17	$19,656	In 1/95, MSTA Board entered into loan repayment plan w/company
Lattice Materials	1990	555,000	0	37	15,000	First debenture due 1/97.
Mycotech, Inc.	1991	1,208,824	20,975	28	43,172	First debenture due 4/98 of $607,000.
Ultrafem, Inc. (Missoula)	1991	700,000	0	110	6,364	Company went public 2/96., stock price as of 11/5/96 $23.00/share MSTA is in at $5.00/share.
Optima Industries	1991	700,000	0	*	n/a	Company refining product. 1st payment due 4/98
TMA Technologies	1991	1,455,956	36,437	*	n/a	Debenture sold in 1995 for future royalties of $1.7M.
Northern Rockies Venture	1993	1,000,000	0	1	n/a	Seed capital for private venture capital company.
Positive Systems	1994	200,000	0	9	22,222	Company is currently viable.
Glacier Venture	1995	1,000,000	0	*	n/a	Seed capital for private venture capital company. Applying for SBIC status.
Spectrum Pool Products	1995	400,000	62,909	30	13,333	Job investment loan
Yellowstone Ace Hardware	1995	100,000	13,490	6	16,667	Job investment loan
Pasta Montana	1996	850,000	0	*	0	In process of building pasta plant in Great Falls. Job investment loan and seed loan
Keep It Simple Systems, Inc.	1996	75,000	0	7	10,714	Company is currently viable.
Total (15)		$10,153,930	$367,863	245		

Assumptions:
1) This analysis assumes that the jobs created did not exist previous to loan financing.
2) The term 'jobs created' is not assumed or intended to mean "retained jobs".

* Jobs created are assumed to be zero based on information from MSTA .
** Job creation costs were calculated by LFD.

Table 9 shows loan losses from six non-performing investments, totaling approximately $328,000.

Issues

1) Program Mission & Investment Portfolio - As per 90-3-501 of MCA, up to 25 percent of MSTA's seed capital loan authority can be invested in companies that are not considered high technology companies. However, there is no defining language in the statute which precludes MSTA from broadly interpreting the types of companies in which science and technology investments can be made. For example, program staff suggested that a company which uses virtually any type of technology in their business (e.g. the use of computers) could potentially qualify for an MSTA science and technology seed loan.

Table 9
MSTA Loan Portolio
Non-performing Investments (closed files)
Loan Losses

Company	Year Funded	Amount Funded	Payback Received	Loss
GeoResearch, Inc.	1986	$180,000	$5,201	$174,799
ChromatoChem, Inc.	1986	200,000	136,500	63,500
Ercon Systems	1986	20,000	0	20,000
Writing Software	1986	50,000	0	50,000
Automation First, Inc.	1987	20,000	0	20,000
InfoTech, Inc.	1988	45,500	0	45,500
Total		$470,000	$141,701	$328,299

Current investment portfolio statistics, as provided by MSTA, are shown in Table 8. Job creation statistics are indicated where applicable. Generally, job creation and retention has been a key objective of state economic development policies and programs. From the information provided by MSTA, it would appear that a total of 245 jobs have been created since the program's inception a decade ago. Nearly half (45 percent) of those jobs can be attributed to just one of MSTA's portfolio companies, Ultrafem, Inc. Additionally, as indicated in Table 8, the cost of the jobs which have been created is relatively high, especially when compared with the statutorily defined criteria governing the Board of Investments economic development investments, which is $10,000 loaned per job created (per 17-6-311 part 4, MCA).

2) Seed Capital Loans - Limited Investment Opportunities - MSTA advises that two loans have been made thus far in the 1997 biennium. Based upon information provided by MSTA, 21 loans have been funded from the program in ten years, which is an average of 2.1 loans per year. In previous conversations with agency staff, it was indicated that the small number of loans made in the last several years was due to a "lack of good investment opportunities". This assertion tends to support recent research studies on venture capital and business formation, which indicate that attractive investment deals are not found everywhere and actually tend to cluster in certain geographic regions of the country. Therefore, only two conclusions can be reached regarding the minimal number of loans made by MSTA: 1) either there are a finite number of attractive investment deals that exist within the state; or 2) attractive investment opportunities exist, but program staff have been unable to locate them. In either case, it would appear that MSTA is limited in the scope of what it can realistically achieve with regard to its legislatively mandated goals.

3) R&D Loans - The last legislature directed that MSTA's research and development funds be provided as grants, not loans, to the university system. Further, all R&D loaning authority has been committed. Therefore, it would appear that the R&D loan function is no longer an administrative function of the MSTA.

4) Loan Losses - Table 9 shows Non-Performing Investment Loan Losses to date, which amount to approximately $328,000. As shown, these loans appear to be some of the earliest MSTA loans, dating back to 1986. It should be noted that venture capital is typically provided to businesses with flexible loan repayment arrangements, giving companies a chance to defer debt payments for an extended period of time. This allows maximum use of operating capital in order to grow. As per 90-3-523, MCA, the MSTA Board allows its portfolio companies up to a maximum of 8 years to defer debt service. Therefore, it may be several years before the state has any indication of the success or failure of its current investments as listed in Table 8.

5) Private Venture Capital Sources - Due to MSTA efforts, there are now at least two private sources of venture capital within the state. In view of what may be considered potentially limited attractive investment deals within the state at any given time, will the MSTA now be in the position of competing with these newly-created private sources, and should they compete with private sources?

Further Considerations

The high risk nature of venture capital investing is a given, with the majority of investments subject to failure. MSTA has performed within the norm of venture capital investing. Not surprisingly, nationwide use of state public funds for high risk investments has met with limited success over the past decade, resulting in a decline in state venture capital programs. Furthermore, the evidence suggests that the job creation value of venture capital investing is extremely small. It can also be reasonably concluded that the mere presence of venture

capital is not enough to stimulate economic development. Although capital is a critical variable in new business formation, it is only one component of a very complex network of infrastructure supportive to economic development. Thus, both careful evaluation and caution should be used when using public funds for such a purpose.

Summary

The MSTA loan program has been in operation for a decade and has committed the bulk of its $23.6 million in loaning authority. The legislature may wish to assess whether the program has been able to achieve the intent of the enacting legislation, which is broadly defined as diversifying the state's economy in the area of science and technology and also creating jobs. The legislature may also wish to examine this program in the context of its similarities to other Department of Commerce loan and investment programs, which could conceivably absorb the limited activity of this function.

Further, the legislature may wish to reconsider the funding level and objectives of this program within the context of: 1) limited attractive investment opportunities; 2) minimal growth in new jobs created by the program; 3) the availability of private sources of venture capital; and 4) loan losses incurred by the program.

6501 74

Department of Commerce — **Housing Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	14.00	0.00	2.26	16.26	0.00	3.00	17.00	16.26
Personal Services	453,253	9,360	59,578	522,191	10,201	79,138	542,592	1,064,783
Operating Expenses	319,656	50,329	22,504	392,489	132,366	22,104	474,126	866,615
Equipment	57,124	(27,224)	22,600	52,500	(42,224)	0	14,900	67,400
Grants	16,231,454	3,887,314	1,848,000	21,966,768	4,517,608	2,772,000	23,521,062	45,487,830
Total Costs	$17,061,487	$3,919,779	$1,952,682	$22,933,948	$4,617,951	$2,873,242	$24,552,680	$47,486,628
Federal Special	17,061,487	3,919,779	1,952,682	22,933,948	4,617,951	2,873,242	24,552,680	47,486,628
Total Funds	$17,061,487	$3,919,779	$1,952,682	$22,933,948	$4,617,951	$2,873,242	$24,552,680	$47,486,628

Program Description

The Housing Division, established on July 1, 1995, consolidated the housing programs within the Department of Commerce into one division. The division includes the Home Investment Partnerships Program (HOME), the Section 8 Housing Program, and the Board of Housing and its programs.

Programs include the HOME program which provides grant funds to eligible local governments and Community Housing Development Organizations for assistance in financing new construction or rehabilitation of individual homes or rental units, tenant-based rental assistance, and other eligible activities; the Section 8 Housing program which works to provide rental assistance through HUD Section 8 rental certificates, rental vouchers, etc. on behalf of very low-income families and the elderly; the Board of Housing which is a 7-member quasi-judicial board appointed by the Governor and which is administratively attached to the Department of Commerce; the Low-Income Housing Tax Credit program provides a tax credit to the owner of rental housing when the owner agrees to restrict the rents to a specific formula amount, renting only to tenants below a maximum income level; the Multi-Family Loan Program which provides mortgage financing to owners of qualifying housing; the Reverse Annuity Mortgage Program which provides income for elderly Montanans based on the equity they have built up in their home; and Single Family Programs which provide assistance in financing the purchase of a home for low to moderate income Montanans.

The accounting and reporting function at the board accounts for approximately 8,000 mortgages totaling in excess of $325 million, and monthly reporting for approximately 60 loan servicers. In addition, the staff accounts for principle and interest on bonds payable of approximately $475 million in 29 bond issues, for investment purchases of approximately $933 million, and for maturities and sales in excess of one billion dollars.

The Housing Division work is mandated primarily in Title 2, Chapter 15; Title 90, Chapter 1, and Chapter 6, MCA; 24 CFR 91, and 92; 24 CFR 5, 792, 813, 887, 982, and 984; and the Governor's Executive Order 27-81.

Funding

The division is funded through an administrative charge applied to mortgages financed. The narrative that follows addresses only a portion of the program. The remaining functions are funded through a proprietary account and consequently do not require an appropriation. These functions are discussed in the "Proprietary Rate Setting and State Fund" section.

Executive Present Law

6501 74				
Department of Commerce			Present Law Adjustments/Issues	
Housing Division				
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	9,360	10,201
02		Inflation/Deflation	300	(88)
03		Fixed Costs	2,962	(5,805)
		Total Statewide Adjustments	$12,622	$4,308
Significant Present Law Adjustments				
04	79199	Section 8 Replacement Pcs	0	0
05	91741	Consolidated Plan	0	90,000
06	91742	Section 8 Rent Surveys	40,000	40,000
07	91743	Section 8 Dp Replacement	0	0
08	91744	Section 8 Rent Increase	22,864	23,894
09	91745	Grants	3,887,314	4,536,223
10	91746	Replacement Equipment	(27,224)	(42,224)
11	91747	Indirect Administrative Costs	2,198	2,360
12	91748	Contracts And Operating Costs	(17,386)	(17,386)
		Total Significant PL Adjustments	$3,907,766	$4,632,867
Other Base Adjustments			($609)	($19,224)
		Grand Total Present Law Adjustments	$3,919,779	$4,617,951

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Consolidated Plan - The state is required to develop a five-year consolidated plan that addresses needs and prioritizes the use of federal resources in the state for affordable housing. The required plan has to be prepared in fiscal 1999. The request in fiscal 1999 for consulting services and increased printing costs is $90,000.

5) Section 8 Rent Surveys - Random digit dialing survey method is the only HUD approved method to challenge fair market rents. Authority is requested to conduct the survey if fair market rents published do not allow renting at a market rent. The federal funding of $40,000 each year of the biennium is requested for operating expenses.

6) Section 8 Rent Increase - As part of the executive reorganization, Section 8 Housing and the HOME Program moved to private space. The net increase for rent costs is $23,676 in fiscal 1998 and $24,218 in fiscal 1999. Utilities and janitorial cost $8,435 in fiscal 1998 and $8,923 in fiscal 1999. A net decrease in rent of state owned buildings is $9,247. The net increase is $22,864 in fiscal 1998 and $23,894 in fiscal 1999.

7) Grants - The request of $3,887,314 in fiscal 1998 and $4,536,223 in fiscal 1999 is for an increase in grants to local agencies, construction costs, special projects, and project administration.

8) Replacement Equipment - The request is a net decrease of $27,224 in fiscal 1998 and $42,224 in fiscal 1999 to replace three personal computers and one laser printer each year of the biennium and replace a high speed printer in fiscal 1998 at a cost of $29,900 in fiscal 1998 and $14,900 in fiscal 1999.

9) Indirect Administrative Costs - The increase in indirect administrative costs is $2,198 in fiscal 1998 and $2,360 in fiscal 1999, as discussed in the Director/Management Services Division portion of the budget.

10) Contracts and Operating Costs - On-site software training, Department of Labor fraud record checks, and an increase in contracts with nonprofit organizations to sort mailings and applications reflect a $1,565 increase over the 1996 base. Decreases in operating expenses are due to relocation costs paid in fiscal 1996, fewer temporary services, and a decrease from the 1996 base of $19,251 for costs associated with the move, i.e., the purchase of partitions and miscellaneous equipment. Copier costs increase $5,493 over the base year due to a smaller copier pool, a larger copy machine, and change in agent information policy increasing machine use. Increases for maintenance contracts on laser printers, LAN server, and monthly charge for Nan McKay software are $1,959. The net decrease from the 1996 base is $17,386 each year

Other Base Adjustments - Numerous decreases from the base year in operating expenses including relocations costs paid in the base year comprise the net amounts for other base adjustments.

6501 74
Department of Commerce — **Housing Division**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Section 8 Workload Increase	1.13		50,072	50,072	1.50		49,847	49,847
02 Project Based Replacement	1.13		1,902,610	1,902,610	1.50		2,823,395	2,823,395
03 Section 8 Fte Pcs								
Total For New Proposals	2.26		$1,952,682	$1,952,682	3.00		$2,873,242	$2,873,242

Executive New Proposals

1) Section 8 Workload Increase - Federal changes in the Section 8 Program affect workload of both clerical and program specialist staff members. During a federal review, the department was cited on seven items related to workload. The request is for 1.13 FTE in fiscal 1998 and 1.50 FTE in fiscal 1999. The request is for $57,072 in fiscal 1998 and $49,847 in fiscal 1999 to include personal services, operating, personal computer, and other equipment.

2) Project Based Replacement - As housing project contracts directly funded by HUD in conjunction with private owners expire, the units will become tenant based due to new federal regulations. Administration of the rental certificates will be done by local housing authorities, and by the state in areas not covered by local housing authorities or where local housing authorities are unwilling or unable to administer the units. It is projected that the department will be offered administration of 2,200 units over the next ten years. The addition of the units will increase the workload of the Section 8 Program by 40 percent over the next ten years. The request is for 1.13 FTE in fiscal 1998 and 1.50 FTE in fiscal 1999, operating, equipment, housing assistance payments, and field agent payments. The federally-funded request is $1,902,610 in fiscal 1998 and $2,823,395 in fiscal 1999.

6501 78 Department of Commerce Program Proposed Budget				Board of Horse Racing				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	3.78	0.00	0.00	3.78	0.00	0.00	3.78	3.78
Personal Services	101,793	19,223	0	121,016	19,259	0	121,052	242,068
Operating Expenses	125,866	5,861	0	131,727	5,331	0	131,197	262,924
Total Costs	$227,659	$25,084	$0	$252,743	$24,590	$0	$252,249	$504,992
General Fund	0	0	0	0	0	0	0	0
State/Other Special	227,659	25,084	0	252,743	24,590	0	252,249	504,992
Total Funds	$227,659	$25,084	$0	$252,743	$24,590	$0	$252,249	$504,992

Program Description

The Board of Horse Racing Program is responsible for: 1) regulating the live and simulcast horse racing industry; 2) ensuring compliance with state laws and board rules by the approximately 3,500 licensees; 3) licensing all racing personnel, establishing race dates for various communities, establishing veterinary practices and standards in connection with horse racing meets; and 4) the auditing, supervision, and investigations related to the parimutuel racing system in Montana.

The program work is mandated in Title 2, Chapter 15, and Title 23, Chapter 4, MCA.

Funding

Horse racing services are funded with state special revenue derived from a one percent tax on gross betting receipts from parimutuel betting. For simulcast facilities, the tax is the greater of one percent of gross betting receipts or the actual cost to the board of regulating the meet.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Changes in Board Member Composition - The increase of $2,775 each year of the biennium is due to board members and staff having to travel greater distances to attend meetings, hearings, seminars, and race tracks.

6501 78 Department of Commerce Board of Horse Racing			Present Law Adjustments Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	17,923	17,959
02		Inflation/Deflation	(270)	(277)
03		Fixed Costs	(556)	(973)
		Total Statewide Adjustments	$17,097	$16,709
Significant Present Law Adjustments				
04	91781	Changes In Board Member Composition	2,775	2,775
05	91782	Board Operations	5,212	5,106
		Total Significant PL Adjustments	$7,987	$7,881
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$25,084	$24,590

5) Board Operations - The increase in fiscal 1998 of $5,212 and in fiscal 1999 of $5,106 is due primarily to additional contract and contractor insurance costs based on 65 race days and slightly to internal support costs for this program.

6501 79 **Department of Commerce** Program Proposed Budget				**Consumer Affairs**				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	2.25	0.00	0.00	2.25	0.00	0.00	2.25	2.25
Personal Services	87,705	698	0	88,403	914	0	88,619	177,022
Operating Expenses	16,442	19,983	0	36,425	19,729	0	36,171	72,596
Total Costs	$104,147	$20,681	$0	$124,828	$20,643	$0	$124,790	$249,618
General Fund	104,147	20,681	0	124,828	20,643	0	124,790	249,618
Total Funds	$104,147	$20,681	$0	$124,828	$20,643	$0	$124,790	$249,618

Program Description

The Consumer Affairs Office advocates on behalf of Montana consumers by providing a mediation process for consumer complaints against businesses. Additionally, the office provides businesses with an opportunity to resolve legitimate consumer complaints in a manner resulting in stronger business relationships with consumers.

Funding

The program is funded entirely with general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6501 79 **Department of Commerce** Consumer Affairs			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	698	914
02		Inflation/Deflation	183	154
03		Fixed Costs	99	(57)
		Total Statewide Adjustments	$980	$1,011
Significant Present Law Adjustments				
04	91791	Consumer Affairs Operating	15,100	15,100
05	91792	Indirect Administrative Costs	1,665	1,606
		Total Significant PL Adjustments	$16,765	$16,706
Other Base Adjustments			$2,936	$2,926
		Grand Total Present Law Adjustments	$20,681	$20,643

4) Consumer Affairs Operating - The proposal is to increase litigation and legal representation of Montana consumers. The funding increase includes travel expenses, contracting with court reporters, investigators, office supplies, printing, and expert witnesses in legal actions. The general fund request is $15,100 each year of the 1999 biennium.

LFD Comment **- The executive budget request reflects a 120 percent increase in operating expenses. The department's justification for this growth is an increase in consumer complaints received over the previous year, and that it plans to step up its litigation efforts as a result.**

5) Indirect Administrative Costs - The increase in indirect administrative costs, $1,665 in fiscal 1998 and $1,606 in fiscal 1999, is discussed in the Director/Management Services Division portion of the Executive Budget.

<u>Other Base Adjustments</u> - A posting error comprises the base adjustment.

INDEX

INDEX